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STATE OF OHIO



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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education

We have audited the accompanying general-purpose financial statements of Conneaut Area City School District, Ashtabula County, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Conneaut Area City School District, Ashtabula County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2002 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.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 27, 2002

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**Conneaut Area City School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Equity in Pooled Cash and Investments	\$ 2,250,474	486,687	323,272	\$ 18,391,157
Restricted Assets	240,953	0	0	0
Taxes Receivable	3,727,640	81,475	195,716	745,513
Due from Other Funds	0	0	0	0
Interfund Receivables	209,871	0	0	0
Intergovernmental Receivables	0	359,652	0	25,883,576
Accounts Receivable	4,585	0	0	53,988
Supplies Inventory	28,986	0	0	0
Inventory for Resale	0	0	0	0
Net Property, Plant & Equipment	0	0	0	0
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0
Total Assets and Other Debits	<u>\$ 6,462,509</u>	<u>927,814</u>	<u>518,988</u>	<u>\$ 45,074,234</u>
Liabilities:				
Interfund Payables	\$ 21,169	188,702	0	\$ 0
Due to Other Funds	214,210	29,949	0	0
Intergovernmental Payable	9,715	899	0	0
Accounts Payable	95,963	24,702	0	72,254
Accrued Salaries and Benefits	1,576,293	270,389	0	0
Deferred Revenue	2,409,175	55,603	128,447	26,394,163
Due to Others	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Asbestos Notes Payable	0	0	0	0
Energy Notes Payable	0	0	0	0
Compensated Absences Payable	52,167	0	0	0
Total Liabilities	<u>4,378,692</u>	<u>570,244</u>	<u>128,447</u>	<u>26,466,417</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings	0	0	0	0
Fund Balances:				
Reserved For Inventory	28,986	0	0	0
Reserved for Textbooks	164,030	0	0	0
Reserved for Capital Maintenance	76,923	0	0	0
Reserved for Encumbrances	163,073	80,318	600	1,571,325
Reserved for Future Appropriation	1,318,465	25,873	67,270	234,927
Unreserved Fund Balance	332,340	251,379	322,671	16,801,565
Total Fund Equity	<u>2,083,817</u>	<u>357,570</u>	<u>390,541</u>	<u>18,607,817</u>
Total Fund Balances/Retained Earnings and Other Credits	<u>2,083,817</u>	<u>357,570</u>	<u>390,541</u>	<u>18,607,817</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$ 6,462,509</u>	<u>927,814</u>	<u>518,988</u>	<u>\$ 45,074,234</u>

(continued)

Conneaut Area City School District
Combined Balance Sheet
All Fund Types and Account Groups - Continued
June 30, 2002

	Proprietary Fund Types		Fiduciary	Account Groups		Totals
	Enterprise	Internal	Trust and	General	General	(Memorandum)
		Service	Agency	Fixed Assets	Long Term	(Only)
Assets and Other Debits:						
Equity in Pooled Cash and Investments	\$ 87,135	2,643	345,011	0	0	\$ 21,886,379
Restricted Assets	0	0	0	0	0	240,953
Taxes Receivable	0	0	0	0	0	4,750,344
Due from Other Funds	0	0	266,403	0	0	266,403
Interfund Receivables	0	0	0	0	0	209,871
Intergovernmental Receivables	49,621	0	919	0	0	26,211,988
Accounts Receivable	1,188	0	0	0	0	59,761
Supplies Inventory	4,192	0	0	0	0	33,178
Inventory for Resale	8,715	0	0	0	0	8,715
Net Property, Plant & Equipment	62,890	0	0	13,726,402	0	13,789,292
Amount Available in Debt Service Fund	0	0	0	0	322,671	322,671
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	8,635,067	8,635,067
Total Assets and Other Debits	\$ 213,741	2,643	612,333	13,726,402	8,957,738	\$ 76,414,622
Liabilities:						
Interfund Payables	\$ 0	0	0	0	0	\$ 209,871
Due to Other Funds	22,236	0	8	0	0	266,403
Intergovernmental Payable	243	0	555,619	0	117,127	683,603
Accounts Payable	2,416	0	4,754	0	0	200,089
Accrued Salaries and Benefits	32,494	0	0	0	0	1,797,396
Deferred Revenue	0	0	0	0	0	28,987,388
Due to Others	0	0	31,896	0	0	31,896
General Obligation Bonds Payable	0	0	0	0	7,335,895	7,335,895
Asbestos Notes Payable	0	0	0	0	24,330	24,330
Energy Notes Payable	0	0	0	0	150,000	150,000
Compensated Absences Payable	18,851	0	0	0	1,330,386	1,401,404
Total Liabilities	76,240	0	592,277	0	8,957,738	41,088,275
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	13,726,402	0	13,726,402
Retained Earnings	137,501	2,643	0	0	0	140,144
Fund Balances:						
Reserved for Inventory	0	0	0	0	0	28,986
Reserved for Textbooks	0	0	0	0	0	164,030
Reserved for Capital Maintenance	0	0	0	0	0	76,923
Reserved for Encumbrances	0	0	858	0	0	1,816,174
Reserved for Future Appropriation	0	0	0	0	0	1,646,535
Unreserved Fund Balance	0	0	19,198	0	0	17,727,153
Total Fund Equity	0	0	20,056	0	0	21,459,801
Total Fund Balances/Retained Earnings and Other Credits	137,501	2,643	20,056	13,726,402	0	35,326,347
Total Liabilities, Fund Equity, and Other Credits	\$ 213,741	2,643	612,333	13,726,402	8,957,738	\$ 76,414,622

See Accompanying Notes to the General Purpose Financial Statements

Conneaut Area City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
All Governmental Fund Types and Expendable Trust Funds
Year Ended June 30, 2002

	Governmental Fund Types				Fiduciary	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum) (Only)
REVENUES:						
Taxes	\$ 3,587,277	68,743	852,745	40,141	0	\$ 4,548,906
Tuition	4,324	0	0	0	0	4,324
Earnings on Investments	174,782	0	0	307,189	0	481,971
Extracurricular Activities	0	117,766	0	0	0	117,766
Classroom Materials and Fees	19	0	0	0	0	19
Miscellaneous	3,421	118,162	0	0	0	121,583
Revenue from Intermediate Sources						
Restricted Grants-in-Aid	0	0	0	0	21,850	21,850
Revenue from State Sources						
Unrestricted Grants-in-Aid	10,303,603	79,738	66,501	3,898	0	10,453,740
Restricted Grants-in-Aid	333,527	395,912	0	10,042,680	920	10,773,039
Revenue from Federal Sources						
Unrestricted Grants-in-Aid	0	40,350	0	0	0	40,350
Restricted Grants-in-Aid	0	1,012,798	0	0	0	1,012,798
Total Revenue	<u>14,406,953</u>	<u>1,833,469</u>	<u>919,246</u>	<u>10,393,908</u>	<u>22,770</u>	<u>27,576,346</u>
EXPENDITURES:						
Instruction:						
Regular Instruction	7,373,399	223,351	0	109,936	25,454	7,732,140
Special Instruction	1,117,212	737,276	0	0	3,221	1,857,709
Vocational Instruction	107,840	0	0	0	0	107,840
Other Instruction	108,549	105,835	0	0	0	214,384
Supporting Services:						
Support Services-Pupils	682,155	102,875	0	0	0	785,030
Support Services-Instructional Staff	812,924	491,015	0	7,351	0	1,311,290
Support Services-Board of Education	14,979	0	0	0	0	14,979
Support Services-Administration	1,457,587	49,982	0	0	0	1,507,569
Support Services-Fiscal Services	301,986	11,899	4,123	12,259	0	330,267
Support Services-Business	4,905	0	0	0	0	4,905
Support Services-Operation & Maintenance	1,194,295	7,200	0	0	0	1,201,495
Support Services-Pupil Transportation	801,405	14,074	0	0	0	815,479
Support Services-Central	810	12,820	0	0	0	13,630
Operation of Non-Instructional Services:						
Community Services	0	38,342	0	0	0	38,342
Extracurricular Activities:						
Academic & Subject Oriented	30,011	17,403	0	0	0	47,414
Occupation Oriented	650	0	0	0	0	650
Sports Oriented	205,782	79,025	0	0	0	284,807
Co-Curricular Activities	11,447	15,897	0	0	0	27,344
Capital Outlay:						
Site Acquisition	500	0	0	0	0	500
Site Improvement	0	0	0	5,172	0	5,172
Architecture & Engineering	19,371	0	0	1,275,538	0	1,294,909
Building Improvement	0	0	0	3,100	0	3,100
Debt Service:						
Repayment of Debt	0	0	1,004,298	0	0	1,004,298
Total Expenditures	<u>14,245,807</u>	<u>1,906,994</u>	<u>1,008,421</u>	<u>1,413,356</u>	<u>28,675</u>	<u>18,603,253</u>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	161,146	(73,525)	(89,175)	8,980,552	(5,905)	8,973,093
Other Financing Sources and Uses:						
Other Financing Sources						
Premium & Accrued Interest	0	0	0	6,804	0	6,804
Sale of Bonds	0	0	0	300	0	300
Sale & Loss of Assets	3,297	0	0	0	0	3,297
Transfers-In	0	114,593	0	1,250,000	0	1,364,593
Other Sources	2,380	0	0	0	0	2,380
Other Financing Uses						
Transfer-Out	(1,432,198)	0	0	0	0	(1,432,198)
Other Uses	1,998	0	0	0	0	1,998
Net Other Financing Sources and Uses	<u>(1,424,523)</u>	<u>114,593</u>	<u>0</u>	<u>1,257,104</u>	<u>0</u>	<u>(52,826)</u>
Excess (Deficiency) of Revenues						
and Other Sources Over Expenditure						
Disbursement and Other Uses	(1,263,377)	41,068	(89,175)	10,237,656	(5,905)	8,920,267
Decrease in Inventory	557	0	0	0	0	557
Beginning Fund Balance	3,295,201	316,502	479,716	8,370,161	25,961	12,487,541
Ending Fund Balance	<u>\$ 2,032,381</u>	<u>357,570</u>	<u>390,541</u>	<u>18,607,817</u>	<u>20,056</u>	<u>\$ 21,408,365</u>

See Accompanying Notes to the General Purpose Financial Statements

Conneaut Area City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Expendable Trust Funds
Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 3,780,320	3,736,957	(43,363)	75,400	71,833	\$ (3,567)
Tuition	8,320	4,444	(3,876)	0	0	0
Earnings on Investment	185,000	176,362	(8,638)	0	0	0
Extracurricular Activities	0	0	0	143,250	118,516	(24,734)
Classroom Materials and Fees	50	19	(31)	0	0	0
Miscellaneous	6,500	4,148	(2,352)	125,570	118,240	(7,330)
Local Restricted Grants-in-Aid	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	10,481,216	10,329,880	(151,336)	8,500	8,184	(316)
State Restricted Grants-in-Aid	351,192	333,527	(17,665)	434,868	395,912	(38,956)
Federal Unrestricted Grants-in-Aid	0	0	0	116,000	115,921	(79)
Federal Restricted Grants-in-Aid	0	0	0	1,607,099	1,253,913	(353,186)
Total Revenue	14,812,598	14,585,337	(227,261)	2,510,687	2,082,519	(428,168)
Expenditures:						
Regular Instruction	7,531,624	7,357,988	173,636	317,546	254,553	62,993
Special Instruction	1,124,877	1,102,630	22,247	906,836	778,780	128,056
Vocational Instruction	108,214	106,776	1,438	0	0	0
Other Instruction	136,246	108,410	27,836	167,182	116,506	50,676
Support Services-Pupils	738,821	673,849	64,972	134,145	101,157	32,988
Support Services-Instructional Staff	877,836	811,755	66,081	504,679	469,201	35,478
Support Services-Board of Education	24,525	22,300	2,225	0	0	0
Support Services-Administration	1,594,753	1,471,172	123,581	51,005	42,664	8,341
Fiscal Services	319,092	313,349	5,743	11,296	11,899	(603)
Support Services-Business	5,424	4,945	479	0	0	0
Operation & Maintenance-Plant	1,237,423	1,194,903	42,520	6,000	7,200	(1,200)
Support Services-Transportation	912,450	888,119	24,331	9,240	14,141	(4,901)
Support Services-Central	1,500	1,090	410	17,995	12,888	5,107
Community Services	0	0	0	55,794	47,537	8,257
Academic & Subject Oriented	31,301	30,951	350	36,036	17,487	18,549
Occupation Oriented	650	650	0	143	0	143
Sports Oriented	209,340	208,890	450	104,059	97,284	6,775
Co-Curricular Activities	12,285	12,245	40	19,616	15,897	3,719
Site Acquisition	775	775	0	0	0	0
Site Improvement	0	0	0	0	0	0
Architecture Engineering	19,371	19,371	0	0	0	0
Building Improvement	0	0	0	0	0	0
Other Fac. Acq. & Construction	1,000	0	1,000	0	0	0
Repayment of Debt	0	0	0	0	0	0
Total Expenditures	14,887,507	14,330,168	557,339	2,341,572	1,987,194	354,378
Excess of Revenue Over (Under) Expenditures	(74,909)	255,169	330,078	169,115	95,325	(73,790)
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	0	0	0
Sale of Bonds	0	0	0	0	0	0
Sale & Loss of Assets	3,500	3,297	(203)	0	0	0
Transfers-In	0	0	0	7,522	114,593	107,071
Advances-In	0	506,875	506,875	0	184,125	184,125
Refund of Prior Year Expenditures	0	2,506	2,506	0	24	24
Transfers-Out	(144,300)	(1,432,198)	(1,287,898)	0	0	0
Advances-Out	0	(184,125)	(184,125)	0	(506,875)	(506,875)
Other Miscellaneous Uses	0	1,073	1,073	0	0	0
Total Other Sources (Uses)	(140,800)	(1,102,572)	(961,772)	7,522	(208,133)	(215,655)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(215,709)	(847,403)	(631,694)	176,637	(112,808)	(289,445)
Beginning Fund Balance	3,071,410	3,071,410	--	452,434	452,434	--
Prior Year Carry Over Encumbrances	319,864	319,864	--	53,699	53,699	--
Ending Fund Balance	\$ 3,175,565	2,543,871	(631,694)	682,770	393,325	\$ (289,445)

(Continued)

Conneaut Area City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Expendable Trust Funds
Year Ended June 30, 2002

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 904,700	860,779	(43,921)	281,000	68,196	\$ (212,804)
Tuition	0	0	0	0	0	0
Earnings on Investment	0	0	0	258,100	257,841	(259)
Extracurricular Activities	0	0	0	0	0	0
Classroom Materials and Fees	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Local Restricted Grants-in-Aid	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	102,000	87,432	(14,568)	31,500	8,153	(23,347)
State Restricted Grants-in-Aid	0	0	0	10,600,680	10,042,680	(558,000)
Federal Unrestricted Grants-in-Aid	0	0	0	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	0	0	0
Total Revenue	1,006,700	948,211	(58,489)	11,171,280	10,376,870	(794,410)
Expenditures:						
Regular Instruction	0	0	0	125,244	123,138	2,106
Special Instruction	0	0	0	0	0	0
Vocational Instruction	0	0	0	0	0	0
Other Instruction	0	0	0	0	0	0
Support Services-Pupils	0	0	0	0	0	0
Support Services-Instructional Staff	0	0	0	38,304	37,356	948
Support Services-Board of Education	0	0	0	0	0	0
Support Services-Administration	0	0	0	0	0	0
Fiscal Services	8,750	4,123	4,627	10,640	12,259	(1,619)
Support Services-Business	0	0	0	0	0	0
Operation & Maintenance-Plant	0	0	0	0	0	0
Support Services-Transportation	0	0	0	0	0	0
Support Services-Central	0	0	0	0	0	0
Community Services	0	0	0	0	0	0
Academic & Subject Oriented	0	0	0	0	0	0
Occupation Oriented	0	0	0	0	0	0
Sports Oriented	0	0	0	0	0	0
Co-Curricular Activities	0	0	0	0	0	0
Site Acquisition	0	0	0	0	0	0
Site Improvement	0	0	0	10,000	5,172	4,828
Architecture Engineering	0	0	0	2,410,000	2,821,387	(411,387)
Building Improvement	0	0	0	5,000	3,100	1,900
Other Fac. Acq. & Construction	0	0	0	0	0	0
Repayment of Debt	1,004,173	1,004,898	(725)	0	0	0
Total Expenditures	1,012,923	1,009,021	3,902	2,599,188	3,002,412	(403,224)
Excess of Revenue Over (Under) Expenditures	(6,223)	(60,810)	(54,587)	8,572,092	7,374,458	(1,197,634)
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	6,804	6,804	0
Sale of Bonds	0	0	0	0	300	300
Sale & Loss of Assets	0	0	0	0	0	0
Transfers-In	0	0	0	0	1,250,000	1,250,000
Advances-In	0	0	0	0	0	0
Refund of Prior Year Expenditures	0	0	0	0	0	0
Transfers-Out	0	0	0	0	0	0
Advances-Out	0	0	0	0	0	0
Other Miscellaneous Uses	0	0	0	0	0	0
Total Other Sources (Uses)	0	0	0	6,804	1,257,104	1,250,300
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(6,223)	(60,810)	(54,587)	8,578,896	8,631,562	52,666
Beginning Fund Balance	403,813	403,813	--	7,570,371	7,570,371	--
Prior Year Carry Over Encumbrances	600	600	--	549,899	549,899	--
Ending Fund Balance	\$ 398,190	343,603	(54,587)	16,699,166	16,751,832	\$ 52,666

(Continued)

Conneaut Area City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Expendable Trust Funds
Year Ended June 30, 2002

	Expendable Trust Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 0	0	0	5,041,420	4,737,765	\$ (303,655)
Tuition	0	0	0	8,320	4,444	(3,876)
Earnings on Investment	0	0	0	443,100	434,203	(8,897)
Extracurricular Activities	0	0	0	143,250	118,516	(24,734)
Classroom Materials and Fees	0	0	0	50	19	(31)
Miscellaneous	100	0	(100)	132,170	122,388	(9,782)
Local Restricted Grants-in-Aid	22,891	21,850	(1,041)	22,891	21,850	(1,041)
State Unrestricted Grants-in-Aid	0	0	0	10,623,216	10,433,649	(189,567)
State Restricted Grants-in-Aid	1,000	0	(1,000)	11,387,740	10,772,119	(615,621)
Federal Unrestricted Grants-in-Aid	0	0	0	116,000	115,921	(79)
Federal Restricted Grants-in-Aid	0	0	0	1,607,099	1,253,913	(353,186)
Total Revenue	23,991	21,850	(2,141)	29,525,256	28,014,787	(1,510,469)
Expenditures:						
Regular Instruction	42,765	27,306	15,459	8,017,179	7,762,985	254,194
Special Instruction	3,241	3,221	20	2,034,954	1,884,631	150,323
Vocational Instruction	0	0	0	108,214	106,776	1,438
Adult/continuing Instruction	0	0	0	303,428	224,916	78,512
Support Services-Pupils	0	0	0	872,966	775,006	97,960
Support Services-Instructional Staff	0	0	0	1,420,819	1,318,312	102,507
Support Services-Board of Education	0	0	0	24,525	22,300	2,225
Support Services-Administration	0	0	0	1,645,758	1,513,836	131,922
Fiscal Services	0	0	0	349,778	341,630	8,148
Support Services-Business	0	0	0	5,424	4,945	479
Operation & Maintenance-Plant	0	0	0	1,243,423	1,202,103	41,320
Support Services-Transportation	0	0	0	921,690	902,260	19,430
Support Services-Central	0	0	0	19,495	13,978	5,517
Food Services Operations	0	0	0	55,794	47,537	8,257
Academic & Subject Oriented	0	0	0	67,337	48,438	18,899
Occupation Oriented	0	0	0	793	650	143
Sports Oriented	0	0	0	313,399	306,174	7,225
Co-Curricular Activities	0	0	0	31,901	28,142	3,759
Site Acquisition	0	0	0	775	775	0
Site Improvement	0	0	0	10,000	5,172	4,828
Architecture Engineering	0	0	0	2,429,371	2,840,758	(411,387)
Building Improvement	0	0	0	5,000	3,100	1,900
Other Fac. Acq. & Construction	0	0	0	1,000	0	1,000
Repayment of Debt	0	0	0	1,004,173	1,004,898	(725)
Total Expenditures	46,006	30,527	15,479	20,887,196	20,359,322	527,874
Excess of Revenue Over (Under) Expenditures	(22,015)	(8,677)	13,338	8,638,060	7,655,465	(982,595)
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	6,804	6,804	0
Sale of Bonds	0	0	0	0	300	300
Sale & Loss of Assets	0	0	0	3,500	3,297	(203)
Transfers-In	0	0	0	7,522	1,364,593	1,357,071
Advances-In	0	0	0	0	691,000	691,000
Refund of Prior Year Expenditures	0	0	0	0	2,530	2,530
Transfers-Out	0	0	0	(144,300)	(1,432,198)	(1,287,898)
Advances-Out	0	0	0	0	(691,000)	(691,000)
Other Miscellaneous Uses	0	0	0	0	1,073	1,073
Total Other Sources (Uses)	0	0	0	(126,474)	(53,601)	72,873
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(22,015)	(8,677)	13,338	8,511,586	7,601,864	(909,722)
Beginning Fund Balance	26,076	26,076	--	11,524,104	11,524,104	--
Prior Year Carry Over Encumbrances	875	875	--	924,937	924,937	--
Ending Fund Balance	\$ 4,936	18,274	13,338	20,960,627	20,050,905	\$ (909,722)

See Accompanying Notes to the General Purpose Financial Statements

Conneaut Area City School District
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types
Year Ended June 30, 2002

	Proprietary Fund Types		
	Enterprise Funds	Internal Service Funds	Totals (Memorandum) (Only)
Operating Revenues:			
Food Service	\$ 318,364	0	\$ 318,364
Classroom Materials & Fees	11,294	0	11,294
Miscellaneous	<u>0</u>	<u>559</u>	<u>559</u>
Total Operating Revenue	329,658	559	330,217
Operating Expenses:			
Personal Services - Salary	245,578	0	245,578
Employee Benefits	83,222	0	83,222
Purchased Services	4,939	0	4,939
Supplies and Materials	344,000	469	344,469
Other Expenses	642	0	642
Depreciation	<u>10,524</u>	<u>0</u>	<u>10,524</u>
Total Operating Expenses	<u>688,905</u>	<u>469</u>	<u>689,374</u>
Operating Income (Loss)	(359,247)	90	(359,157)
Non-Operating Revenues:			
State Unrestricted Grants-In-Aid	14,347	0	14,347
State Restricted Grants-In-Aid	2,480	0	2,480
Federal Unrestricted Grants-In-Aid	293,977	0	293,977
Federal Restricted Grants-in-Aid	65,986	0	65,986
Refund of Prior Years Expenses	1,183	0	1,183
Loss on Disposal of Assets	<u>(10,370)</u>	<u>0</u>	<u>(10,370)</u>
Total Non-Operating Revenues	367,603	0	367,603
Net Income (Loss) Before			
Operating Transfers	8,356	90	8,446
Transfers-In			
	<u>16,169</u>	<u>0</u>	<u>16,169</u>
Total Transfers	16,169	0	16,169
Net Income	24,525	90	24,615
Beginning Retained Earnings, as restated in Note 7	<u>112,976</u>	<u>2,553</u>	<u>115,529</u>
Retained Earnings at End of Year	<u>\$ 137,501</u>	<u>2,643</u>	<u>\$ 140,144</u>

See Accompanying Notes to the General Purpose Financial Statements

Conneaut Area City School District
Combined Statement of Changes in Cash Flows
All Proprietary Fund Types
Year Ended June 30, 2002

	Proprietary Fund Types		Totals (Memorandum) (Only)
	Enterprise Funds	Internal Service Funds	
Cash Flows from Operating Activities			
Operating Gain (Loss)	\$ (359,247)	90	\$ (359,157)
Adjustment to Reconcile Operating Gain (Loss)			
To Net Cash used in Operating Activities:			
Commodities Used	65,986	0	65,986
Depreciation	10,524	0	10,524
Net (Increase) Decrease in Assets:			
Accounts Receivable	(1,093)	0	(1,093)
Due from Other Governments	(5,721)	0	(5,721)
Inventory	(1,434)	0	(1,434)
Net Increases (Decreases) in Liabilities:			
Due to Other Funds	(12,219)	0	(12,219)
Due to Other Governments	45	0	45
Accounts Payable	(512)	0	(512)
Accrued Salaries and Benefits	5,300	0	5,300
Deferred Revenue	(6,971)	0	(6,971)
Compensated Absences	5,747	0	5,747
Total Adjustments	<u>59,652</u>	<u>0</u>	<u>59,652</u>
Net Cash Used in Operating Activities	(299,595)	90	(299,505)
Cash Flows from Noncapital Activities:			
Miscellaneous	1,183	0	1,183
Transfers in from Other Funds	16,169	0	16,169
Operating Grants from State Sources	16,827	0	16,827
Operating Grants from Federal Sources	293,977	0	293,977
Net Cash Provided by Noncapital Financing Sources	<u>328,156</u>	<u>0</u>	<u>328,156</u>
Net Increase (Decrease) in Cash & Cash Equivalents	28,561	90	28,651
Cash and Cash Equivalents at Beginning of Year	<u>58,574</u>	<u>2,553</u>	<u>61,127</u>
Cash and Cash Equivalents at End of Year	<u>\$ 87,135</u>	<u>2,643</u>	<u>\$ 89,778</u>
See Accompanying Notes to General Purpose Financial Statements			

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**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

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, 2001, was 2,427. The District employed 180 certified employees and 110 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 general purpose 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.

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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

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.

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 and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

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.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities (other than those financed by proprietary and trust funds).

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Principles (continued)

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 Funds - These funds are 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.

Internal Service Funds - These funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Expendable Trust Funds - These funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the District's fixed assets other than those accounted for in the Proprietary funds.

General Long-Term Debt Account Group - This account group is used to account for all of the District's long-term obligations other than those accounted for in the Proprietary Funds.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds 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 balance sheet. Fund equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e. expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements as well as relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year. The available period for the District is sixty days after fiscal 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. Revenue from grants, entitlements and donations is recognized in the 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 specific 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.

In applying the susceptible to the accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, rentals and grants.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

The District reports deferred revenues on its combined balance sheet that arise when revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2002 that are intended to finance fiscal year 2003 operations, and delinquent property taxes, whose availability is indeterminable have been recorded as deferred revenue.

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 the governmental funds.

The proprietary fund type and nonexpendable trust funds utilize the full accrual basis of accounting for reporting purposes. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as federal non-operating revenue.

D. 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 general purpose financial statements:

- 1) 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.
- 2) 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.
- 3) 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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

- 4) 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 "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types."

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 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); and
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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.

E. 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.

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, 2002.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

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 2002 totaled \$481,971; General Fund, \$174,782 and Capital Projects Fund, \$307,189.

F. Taxes Receivable

The financial statements reflect taxes receivable as of June 30, 2002. 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, 2002 and accordingly have been recorded as deferred revenue in the accompanying financial statements. Taxes that become delinquent remain recorded in deferred revenue until they are determined to be uncollectible.

G. Inventories

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. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and general supplies, and are expended when used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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.

I. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed using the straight-line method over an estimated useful life of the assets.

J. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2002, the District had \$266,403 in "Due to/from Other Funds" and \$209,871 in "Interfund Receivables/Payables."

K. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2002 the District had no long-term interfund loans.

L. 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.

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.

For governmental funds, the District records a liability for accumulated unused vacation and sick leave when earned. The current portion of these 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 remainder is reported in the general long-term debt account group. In proprietary funds, compensated absences are expensed when earned with the amount reported as a fund liability.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

M. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. The assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expended and closed to unreserved retained earnings at year end. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. At June 30, 2002, the District had no contributed capital.

N. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

O. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

P. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for supplies inventory, encumbrances and future appropriations and textbooks. The reserve for future appropriation represents the amount of the property taxes available for advance and recognized as revenue. The District is prohibited by law from appropriating the advance, since it was not received, for the current fiscal year. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

Q. Estimates

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

R. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Budgetary Basis of Accounting

The following table summarizes the adjustments necessary to reconcile the GAAP basis and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types**

	General Fund	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$ (1,211,941)	41,068	(89,175)	\$ 10,237,656
Increase (Decrease):				
Due to Revenues:				
Net Adjustments to Revenue Accruals	126,948	249,050	28,965	(17,038)
Due to Expenditures:				
Net Adjustments to Expenditure Accruals	(84,361)	(80,200)	(600)	(1,589,056)
Due to Other Sources/Uses	321,951	(322,726)	0	0
Budget Basis	<u>\$ (847,403)</u>	<u>(112,808)</u>	<u>(60,810)</u>	<u>\$ 8,631,562</u>

Note 3. Accountability and Compliance

Pursuant to Section 117.11(A) of the Revised Code, the Auditor of State performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 4. 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.

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.

Monies held by the District which are not considered active are classified as inactive. Inactive 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;

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 4. Cash and Investments (continued)

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.

Deposits At fiscal year end, the carrying amount of the District's deposits was (\$140,739) and the bank balance was \$171,300. All of the bank balance was covered by federal depository insurance. 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.

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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 4. Cash and Investments (continued)

	Category			Carrying Value	Fair Value
	1	2	3		
STAR Ohio	\$ 0	0	0	15,963,259	\$ 15,963,259
No-Load Money Market	0	0	1,112,043	1,112,043	1,112,043
Certificates of Deposit	0	0	4,095,735	4,095,735	4,095,735
Repurchase Agreements	0	0	1,096,196	1,096,196	1,096,196
Total Investments	<u>\$ 0</u>	<u>0</u>	<u>6,303,974</u>	<u>22,267,233</u>	<u>\$ 22,267,233</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 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 combined 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 No. 9	\$ 22,127,332	\$ 0
Investments:		
Repurchase Agreements	(1,096,196)	1,096,196
No-load Money Market Funds	(1,112,043)	1,112,043
Certificates of Deposit	(4,095,735)	4,095,735
STAR Ohio	(15,963,259)	15,963,259
Cash on Hand	(838)	0
Total - GASB Statement No. 3	<u>\$ (140,739)</u>	<u>\$ 22,267,233</u>

Note 5. 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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 5. Property Tax (continued)

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, 2002 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 2002 taxes were collected were as follows:

Real Property-Commercial/Industrial	\$ 24,047,060
Real Property-Residential/Agricultural	103,068,570
Real Property-Public Utilities	1,059,500
Personal Property-General	20,385,500
Personal Property-Public Utilities	11,143,660
Total Assessed Value	<u>\$ 159,704,290</u>

Note 6. Receivables

Receivables at June 30, 2002 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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 6. Receivables (continued)

A summary of the principal items of Intergovernmental Receivables follows:

Special Revenue Fund:	
CAFS Reimbursement	\$ 8,294
Title I	246,886
Title VI-B	59,325
Title VI-R	42,443
Drug Free	2,704
Total Special Revenue Fund	359,652
Capital Projects Fund:	
Ohio School Facilities Grant	25,883,576
Total Capital Projects Fund	25,883,576
Trust & Agency Funds:	
Local Mini-Grants	919
Total Trust & Agency Funds	919
Proprietary Fund:	
Federal Lunchroom Grants	49,621
Total Proprietary Fund	49,621
Grand Total	<u>\$ 26,293,768</u>

Note 7. Fixed Assets

In prior years, the District has capitalized its fixed assets with a cost of less than \$1,000, which is not consistent with the District's revised capitalization policy. Further, the District identified additional fixed assets and recorded those assets within the appropriate classifications. Disposals were identified and recorded, also. The effect of these adjustments for the year ended June 30, 2001 is as follows:

Governmental Funds:	Balance at June 30, 2001	Adjustment for capitalization level to \$1,000	Restated Balance June 30, 2001
Land & Improvements	\$ 1,686,912	(561,468)	\$ 1,125,444
Buildings	7,030,882	(125,438)	6,905,444
Furniture & Equipment	3,763,684	(421,523)	3,342,161
Vehicles	1,009,525	193,854	1,203,379
Construction in Progress	515,724	0	515,724
Total	<u>\$ 14,006,727</u>	<u>(914,575)</u>	<u>\$ 13,092,152</u>

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 7. Fixed Assets (continued)

Enterprise Funds:

Property, Plant and Equipment, as previously reported	\$ 310,250
Adjustment for Fixed Assets with a cost of less than \$1,000	<u>(29,303)</u>
Restated Property, Plant and Equipment at June 30, 2001	<u><u>280,947</u></u>
Accumulated Depreciation, as previously reported	226,441
Adjustment for Fixed Assets with a cost of less than \$1,000	<u>(22,703)</u>
Restated Accumulated Depreciation at June 30, 2001	<u><u>203,738</u></u>
Retained Earnings, as previously reported	113,001
Adjustments for Fixed Assets with a cost of less than \$1,000	<u>(25)</u>
Restated Retained Earnings at June 30, 2001	<u><u>\$ 112,976</u></u>

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2002:

	General Fixed Assets June 30, 2001	Additions	Deletions	General Fixed Assets June 30, 2002
Land & Land Improvements	\$ 1,125,444	0	0	\$ 1,125,444
Buildings & Bldg. Improvements	6,905,444	0	(17,530)	6,887,914
Furniture, Fixtures & Equipment	3,342,161	104,513	(692,846)	2,753,828
Vehicles	1,203,379	276,755	(313,826)	1,166,308
Construction in Progress	515,724	1,277,184	0	1,792,908
Total General Fixed Assets	<u><u>\$ 13,092,152</u></u>	<u><u>1,658,452</u></u>	<u><u>(1,024,202)</u></u>	<u><u>\$ 13,726,402</u></u>

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 7. Fixed Assets (continued)

The following is a summary of the proprietary funds property, plant and equipment at June 30, 2002:

Furniture and Equipment	\$	235,349
Vehicles	\$	29,619
Less Accumulated Depreciation		(202,078)
Net Fixed Assets	\$	62,890

In proprietary funds, the following estimated useful lives are used to compute depreciation:

Equipment	8-20 years
Furniture	20 years
Vehicles	10 years

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 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, 2002, 2001, and 2000 were \$307,032, \$318,576 and \$296,052, respectively; 45.63 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$182,927 representing the unpaid contribution for fiscal year 2002, including the surcharge, is recorded as a liability within the respective funds and the general long-term obligations account group.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 8. Defined Benefit Pension Plans (continued)

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.

For the fiscal year ended June 30, 2002, 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. For fiscal year 2000 (the latest information available), 6 percent was 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, 2002, 2001, and 2000 were \$1,097,472, \$1,140,552 and \$1,107,384, respectively; 83.33 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$182,910 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

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, 2001 (the latest information available), the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2002. For the District, this amount equaled \$352,759 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 9. Postemployment Benefits (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent for fiscal year 2002. 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 2002, the minimum pay has been established at \$12,400. For the District, the amount to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$216,700.

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, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

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:

Years Service	Vacation Days
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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 10. Compensated Absences (Continued)

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.

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.

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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 11. Risk Management (Continued)

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

A summary of changes in long-term obligations for the year ended June 30, 2002, are as follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
General Obligation Bonds Payable	\$ 7,730,895	0	395,000	\$ 7,335,895
Energy Notes Payable	225,000	0	75,000	150,000
Asbestos Notes Payable	29,734	0	5,404	24,330
Intergovernmental Payable	113,910	117,127	113,910	117,127
Compensated Absences Payable	1,352,019	1,330,386	1,352,019	1,330,386
	<u>\$ 9,451,558</u>	<u>1,447,513</u>	<u>1,941,333</u>	<u>\$ 8,957,738</u>

Additions and deletions of compensated absences are shown net since it is impracticable for the District to determine these amounts separately.

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, 2002, and related interest payments are as follows:

	Principal	Interest	Payment
FY2003	\$ 190,000	63,056	\$ 253,056
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>\$ 950,000</u>	<u>175,155</u>	<u>\$ 1,125,155</u>

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 12. Notes and Long-Term Debt (Continued)

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, 2002, and related interest payments are as follows:

	Principal	Interest	Payment
FY2003	\$ 195,000	292,206	\$ 487,206
FY2004	205,000	283,855	488,855
FY2005	215,000	274,981	489,981
FY2006	225,000	265,631	490,631
FY2007 & Thereafter	5,545,895	3,207,218	8,753,113
	<u>\$ 6,385,895</u>	<u>4,323,891</u>	<u>\$ 10,709,786</u>

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, 2002, and related interest payments are as follows:

	Principal	Interest	Payment
FY2003	\$ 75,000	5,737	\$ 80,737
FY2004	75,000	1,912	76,912
	<u>\$ 150,000</u>	<u>7,649</u>	<u>\$ 157,649</u>

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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 12. Notes and Long-Term Debt (Continued)

The annual maturities of the general obligation notes as of June 30, 2002, as follows:

	Payment
FY2003	\$ 5,406
FY2004	5,406
FY2005	5,406
FY2006	5,406
FY2007 & Thereafter	2,706
	\$ 24,330

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 .01percent of the total assessed value of property. The District has no unvoted debt, the District 's unvoted debt limit is \$159,704. The voted debt limit at June 30, 2002 is \$14,373,386.

Note 13. Interfund Transactions

At June 30, 2002, the District had short-term interfund loans which are classified as "interfund receivables/payables." Receivables and payables resulting from goods provided or services rendered are classified as "due from/to other funds." An analysis of interfund balances is as follows:

Interfund Receivables/Interfund Payables:

	Receivables	Payables
General Fund	\$ 209,871	\$ 0
General Fund/Fees	0	21,169
Special Revenue Funds	0	188,702
	\$ 209,871	\$ 209,871

Due To/From Other Funds:

	Due to Other Funds	Due From Other Funds
General Fund	\$ 214,210	\$ 0
Special Revenue Funds	29,949	0
Enterprise Funds	22,236	0
Expendable Trust Funds	8	0
Agency Funds	0	266,403
	\$ 266,403	\$ 266,403

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 14. Segments of Enterprise Activities

Key financial data for the District's Enterprise Funds for the year ended June 30, 2002, are as follows:

	Lunchroom Fund	Uniform School Supply Fund	Total
Operating Revenues	\$ 318,364	11,294	\$ 329,658
Operating Expenses:			
Depreciation	(10,524)	0	(10,524)
Other Expenses	(647,771)	(30,610)	(678,381)
Total Operating Expenses	<u>(658,295)</u>	<u>(30,610)</u>	<u>(688,905)</u>
Operating Loss	(339,931)	(19,316)	(359,247)
Non Operating Revenues and Expenses:			
Miscellaneous	1,183	0	1,183
Transfers In/Out	0	16,169	16,169
Loss on Disposal of Assets	(10,370)	0	(10,370)
Operating Grants	376,790	0	376,790
Net Income/Loss	<u>\$ 27,672</u>	<u>(3,147)</u>	<u>\$ 24,525</u>
Net Working Capital	<u>\$ 74,025</u>	<u>588</u>	<u>\$ 74,613</u>
Total Assets	<u>\$ 210,942</u>	<u>2,799</u>	<u>\$ 213,741</u>
Total Fund Equity	<u>\$ 136,913</u>	<u>588</u>	<u>\$ 137,501</u>

Note 15. Jointly Governed Organizations

Northeast Ohio Management Information Network- (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 2002. 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.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 15. Jointly Governed Organizations (continued)

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 of 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.

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, 2801 Market Street, Youngstown, Ohio, 44507.

Note 16. 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 is 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, 2002.

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, 2002.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 17. 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.

Note 18. 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, 2002, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Total
Set-Aside Cash Balance, 7/1/2001	\$ 148,873	\$ 0	\$ 148,873
Current Year Required Set Aside	305,754	305,754	611,508
Current Year Offset Credits	0	0	0
Qualifying Disbursements	(290,597)	(228,831)	(519,428)
Total	<u>\$ 164,030</u>	<u>\$ 76,923</u>	<u>\$ 240,953</u>
Cash Balance Carried Forward to FY2003	<u>\$ 164,030</u>	<u>\$ 76,923</u>	<u>\$ 240,953</u>

A schedule of the restricted assets at June 30, 2002, follows:

Amount Restricted for Textbooks	<u>\$ 164,030</u>
Amount Restricted for Capital Maintenance Improvements	<u>\$ 76,923</u>
Total Restricted Assets	<u>\$ 240,953</u>

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

Note 19. Fund Deficits

Fund balances at June 30, 2002, included the following funds had deficit balances:

Special Revenue Funds:

Professional Development Block Grant	<u>\$ (12)</u>
DPIA Grant	<u>\$ (29,957)</u>
Title VI-B Grant	<u>\$ (22,873)</u>
Title I Grant	<u>\$ (44,458)</u>
Continuous Improvement Grant	<u>\$ (8,375)</u>

These deficits resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The District is aware of the deficits and will take the necessary steps to alleviate them. The general fund is liable for any deficits and provides operating transfers when cash is required, not when accruals occur.

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**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through The Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	-	\$59,015	-	\$61,462
School Breakfast Program	05-PU-01 05-PU-02	10.553	\$14,079 40,737	-	\$14,079 40,737	-
Subtotal -- School Breakfast Program			54,816	-	54,816	-
National School Lunch Program	LL-P1-01 LL-P4-01 LL-P4-02	10.555	30,365 35,438 211,069	-	30,365 35,438 211,069	-
Subtotal -- School National School Lunch Program			276,872	-	276,872	-
Total U.S. Department of Agriculture Nutrition Cluster			\$331,688	\$59,015	\$331,688	\$61,462
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies Title I School Subsidy	C1-S1 01 C1-S1 02	84.010	340,764 435,935	-	125,120 557,155	-
Total Title I School Subsidy			776,699	-	682,275	-
Special Education Cluster:						
Special Education Grants to States Title VI-B Handicapped Flowthrough	6B-EC-01 P 6B-SF 01 P 6B-SF 02 P	84.027	4,032 100,900 170,567	-	4,001 32,593 221,890	-
Subtotal Title VI-B Handicapped Flowthrough			275,499	-	258,484	-
Special Education - Preschool Grant	PG-S1 00 P PG-S1 02 P	84.173	-	-	3,987 17,021	-
Subtotal Preschool Grant			21,379	-	21,008	-
Total Special Education Cluster			296,878	-	279,492	-
Eisenhower Professional Development State Grant Math and Science Subsidy	MS-S1 00 MS-S1 01 MS-S1 02	84.281	10,542 1,491 18,960	-	2,944 2,051 17,783	-
Total Math and Science Subsidy			30,993	-	22,778	-
Safe and Drug Free School and Communities Drug Free Education Subsidy	DR-S1 01 DR-S1 02	84.186	7,469 7,352	-	3,498 4,835	-
Total Drug Free Education Subsidy			14,821	-	8,333	-
Innovative Education Program Strategies Chapter 2 Subsidy	CS-S1 99 CS-S1 01 CS-S1 02	84.298	-	-	3,073 7,969	-
Total Chapter 2 Subsidy			14,110	-	11,042	-
Class Size Reduction Subsidy	CR-S1-01 CR-S1-02	84.340	45,708 73,517	-	18,946 84,180	-
Total Class Size Reduction Subsidy			119,225	-	103,126	-
Goals 2000 Subsidy	G2-S1-00 P G2-S1-01 P	84.276	-	-	338 3,555	-
Total Class Size Reduction Subsidy			-	-	3,893	-
<i>Passed Through The Ashtabula County JVS:</i>						
Vocational Education Basic Grants to States Career Education Mini Grant	N/A	84.048	1,187	-	1,224	-
Total U.S. Department of Education			1,253,913	-	\$1,112,163	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through The Ohio Department of Education: Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medicaid - CAFS		93.778	115,921	-	118,309	-
Totals			\$1,701,522	\$59,015	\$1,562,160	\$61,462

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, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B- FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

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.



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS 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 2002, and have issued our report thereon dated December 27, 2002. 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 certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 27, 2002.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as 2002-11104-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 27, 2002.

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, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 27, 2002



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**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, 2002. 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, 2002.

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.



Jim Petro
Auditor of State

December 27, 2002

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)() <i>(i)</i>	Type of Financial Statement opinion	Unqualified
(d)(1) <i>(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1) <i>(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1) <i>(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1) <i>(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1) <i>(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1) <i>(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1) <i>(vi)</i>	Are there any reportable findings under § .510?	No
(d)(1) <i>(vii)</i>	Major Programs (list):	Title I CFDA: 84.010 and Nutrition Cluster CFDA: 10.550, 10.553 & 10.555
(d)(1) <i>(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1) <i>(ix)</i>	Low Risk Auditee?	No

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2002**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

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

FINDING NUMBER 2002-11104-01

Student Activity Procedures

In order to increase accountability of and consistency among student activity projects, the District has adopted a student activity manual. This manual prescribes various forms which should be completed by each activity advisor, and the information reported on these forms are to be verified as correct and signed by the advisor, and then approved by the school principal. If completed in their entirety, these forms provide the District's management with a tool by which they can monitor program activity and, in most cases, profitability of the projects.

Our review of the student activity's projects, and specifically Student Council's sale of spirit towels, the advisors did not complete the profit and loss statements correctly. If these forms had been completed as required, a proper accounting of each activity would be presented to the District, which would then give management a better idea as to what projects are running efficiently, and what projects were deemed to have errors and shortages. Advisors need to be aware of the importance of tracking each activity on these forms as to what transpired, especially when occurrences differ from the original projections.

3. FINDINGS FOR FEDERAL AWARDS

None



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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
FEBRUARY 4, 2003**