CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Conotton Valley Union Local School District
Harrison County
21 Mound Street
P.O. Box 187
Sherrodsville, Ohio 44675

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Conotton Valley Union Local School District, Harrison County, (the District) as of and for the year ended June 30, 2003, 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 Conotton Valley Union Local School District, Harrison County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2004 on our consideration of the Government'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.

Betty Montgomery

Betty Montgomery
Auditor of State

January 30, 2004

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CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Capital Projects	Enterprise
ASSETS AND OTHER DEBITS				
ASSETS:				
. . .	$ 1,415,063	$ 66,091	$ 31,629	$ 477
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-	-
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	1,989,943	-	56,235	-
Interfund loan receivable	48,558	-	-	-
Due from other governments	-	45,677	-	12,142
Materials and supplies inventory	-	-	-	3,004
Prepayments	16,778	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	108,907	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	10,246
OTHER DEBITS:				
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	$ 3,579,249	$ 111,768	$ 87,864	$ 25,869
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	$ 41	$ -	$ -	$ -
Accrued wages and benefits	281,425	3,149	-	8,385
Compensated absences payable	2,200	-	-	5,108
Pension obligation payable	49,122	644	-	5,498
Interfund loan payable	-	36,963	-	7,095
Deferred revenue	1,811,123	23,351	50,463	-
Due to other governments	11,738	613	-	345
Due to students	-	-	-	-
Total liabilities	2,155,649	64,720	50,463	26,431
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Accumulated deficit: unreserved	-	-	-	(562)
Fund balances:				
Reserved for encumbrances	77,821	45,021	546	-
Reserved for prepayments	16,778	-	-	-
Reserved for tax revenue unavailable for appropriation	178,820	-	5,772	-
Reserved for principal endowment	-	-	-	-
Reserved for BWC refunds	17,028	-	-	-
Reserved for textbooks	91,879	-	-	-
Reserved for capital acquisition	-	-	-	-
Unreserved-undesignated	1,041,274	2,027	31,083	-
Total equity and other credits	1,423,600	47,048	37,401	(562)
Total liabilities, equity and other credits	$ 3,579,249	$ 111,768	$ 87,864	$ 25,869

The notes to the general purpose financial statements are an integral part of this statement.

Fiduciary Fund Types	Account Groups		
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$ 18,421	$ -	$ -	$ 1,531,681
209,361	-	-	209,361
-	-	-	2,046,178
-	-	-	48,558
-	-	-	57,819
-	-	-	3,004
-	-	-	16,778
-	-	-	108,907
-	3,137,551	-	3,147,797
-	-	194,874	194,874
$ 227,782	$ 3,137,551	$ 194,874	$ 7,364,957
$ -	$ -	$ -	$ 41
-	-	-	292,959
-	-	159,193	166,501
-	-	35,681	90,945
4,500	-	-	48,558
-	-	-	1,884,937
-	-	-	12,696
13,651	-	-	13,651
18,151	-	194,874	2,510,288
-	3,137,551	-	3,137,551
-	-	-	(562)
-	-	-	123,388
-	-	-	16,778
-	-	-	184,592
203,482	-	-	203,482
-	-	-	17,028
-	-	-	91,879
-	-	-	-
6,149	-	-	1,080,533
209,631	3,137,551	-	4,854,669
$ 227,782	$ 3,137,551	$ 194,874	$ 7,364,957

CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:						
From local sources:						
Taxes	$ 1,874,821	$ -	$ -	$ 57,029	$ -	$ 1,931,850
Earnings on investments	24,304	-	-	-	-	24,304
Extracurricular	-	63,226	-	-	-	63,226
Other local revenues	16,442	5,230	-	-	-	21,672
Other revenue	-	2,950	-	-	-	2,950
Intergovernmental - state	2,049,397	58,516	-	9,297	-	2,117,210
Intergovernmental - federal	-	158,247	-	-	-	158,247
Total revenue	3,964,964	288,169	-	66,326	-	4,319,459
Expenditures:						
Current:						
Instruction:						
Regular	1,666,587	86,856	-	13,828	-	1,767,271
Special	221,679	130,454	-	-	-	352,133
Vocational	52,600	-	-	-	-	52,600
Other	240,331	-	-	-	-	240,331
Support services:						
Pupil	107,576	-	-	-	-	107,576
Instructional staff	94,792	8,665	-	-	-	103,457
Board of Education	9,263	-	-	-	-	9,263
Administration	426,063	17,302	-	2,995	-	446,360
Fiscal	169,516	5,003	-	2,162	-	176,681
Business	4,632	-	-	-	-	4,632
Operations and maintenance	357,020	-	-	19,867	-	376,887
Pupil transportation	325,536	-	-	38,000	-	363,536
Central	-	16,037	-	-	-	16,037
Extracurricular activities	70,517	54,273	-	-	-	124,790
Facilities acquisition and construction	78,667	-	-	-	-	78,667
Debt service:						
Principal retirement	-	-	6,555	-	-	6,555
Total expenditures	3,824,779	318,590	6,555	76,852	-	4,226,776
Excess (deficiency) of revenues over (under) expenditures	140,185	(30,421)	(6,555)	(10,526)	-	92,683
Other financing uses:						
Operating transfers in	-	-	6,555	-	-	6,555
Operating transfers out	(33,160)	-	-	-	-	(33,160)
Total other financing uses	(33,160)	-	6,555	-	-	(26,605)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	107,025	(30,421)	-	(10,526)	-	66,078
Fund balances, July 1	1,316,575	77,469	-	47,927	270	1,442,241
Fund balances, June 30	$ 1,423,600	$ 47,048	$ -	$ 37,401	$ 270	$ 1,508,319

The notes to the general purpose financial statements are an integral part of this statement.

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CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes.	$ 1,696,001	$ 1,696,001	$ -	$ -	$ -	$ -
Earnings on investments.	24,304	24,304	-	-	-	-
Extracurricular.	-	-	-	63,225	63,225	-
Other local revenues	16,402	16,402	-	5,230	5,230	-
Other revenue	-	-	-	2,950	2,950	-
Intergovernmental - state	2,049,607	2,049,607	-	58,516	58,516	-
Intergovernmental - federal.	-	-	-	172,086	172,086	-
Total revenues.	3,786,314	3,786,314	-	302,007	302,007	-
Expenditures:						
Current:						
Instruction:						
Regular.	1,664,092	1,664,092	-	94,218	94,218	-
Special.	236,041	236,041	-	162,580	162,580	-
Vocational.	51,716	51,716	-	-	-	-
Other.	240,331	240,331	-	-	-	-
Support services:						
Pupil.	106,839	106,839	-	-	-	-
Instructional staff	94,513	94,513	-	8,566	8,566	-
Board of Education	9,448	9,448	-	-	-	-
Administration	432,510	432,510	-	17,310	17,310	-
Fiscal.	169,700	169,700	-	5,000	5,000	-
Business	162	162	-	-	-	-
Operations and maintenance	385,161	385,161	-	-	-	-
Pupil transportation	337,565	337,565	-	-	-	-
Central.	-	-	-	20,132	20,132	-
Community services	-	-	-	1,986	1,986	-
Extracurricular activities	69,976	69,976	-	57,837	57,837	-
Facilities acquisition and construction . .	78,727	78,727	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Total expenditures	3,876,781	3,876,781	-	367,629	367,629	-
Deficiency of revenues under expenditures	(90,467)	(90,467)	-	(65,622)	(65,622)	-
Other financing sources (uses):						
Advances in	82,614	82,614	-	97,374	97,374	-
Advances out.	(100,130)	(100,130)	-	(79,358)	(79,358)	-
Operating transfers in	-	-	-	4,243	4,243	-
Operating transfers out.	(33,160)	(33,160)	-	(4,243)	(4,243)	-
Refund of prior year expenditure	40	40	-	(2,977)	(2,977)	-
Total other financing sources (uses) . .	(50,636)	(50,636)	-	15,039	15,039	-
Deficiency of revenues and other financing sources under expenditures and other financing (uses).	(141,103)	(141,103)	-	(50,583)	(50,583)	-
Fund balances, July 1	1,443,250	1,443,250	-	30,622	30,622	-
Prior year encumbrances appropriated . .	143,961	143,961	-	41,031	41,031	-
Fund balances, June 30	$ 1,446,108	$ 1,446,108	$ -	$ 21,070	$ 21,070	$ -

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	**Actual**	**Variance: Favorable (Unfavorable)**	**Budget Revised**	**Actual**	**Variance: Favorable (Unfavorable)**	**Budget Revised**	**Actual**	**Variance: Favorable (Unfavorable)**
$ -	$ -	$ -	$ 51,256	$ 51,256	$ -	$ 1,747,257	$ 1,747,257	$ -
-	-	-	-	-	-	24,304	24,304	-
-	-	-	-	-	-	63,225	63,225	-
-	-	-	-	-	-	21,632	21,632	-
-	-	-	-	-	-	2,950	2,950	-
-	-	-	9,314	9,314	-	2,117,437	2,117,437	-
-	-	-	-	-	-	172,086	172,086	-
-	-	-	60,570	60,570	-	4,148,891	4,148,891	-
-	-	-	13,829	13,829	-	1,772,139	1,772,139	-
-	-	-	-	-	-	398,621	398,621	-
-	-	-	-	-	-	51,716	51,716	-
-	-	-	-	-	-	240,331	240,331	-
-	-	-	-	-	-	106,839	106,839	-
-	-	-	-	-	-	103,079	103,079	-
-	-	-	-	-	-	9,448	9,448	-
-	-	-	3,541	3,541	-	453,361	453,361	-
-	-	-	2,162	2,162	-	176,862	176,862	-
-	-	-	-	-	-	162	162	-
-	-	-	19,866	19,866	-	405,027	405,027	-
-	-	-	37,999	37,999	-	375,564	375,564	-
-	-	-	-	-	-	20,132	20,132	-
-	-	-	-	-	-	1,986	1,986	-
-	-	-	-	-	-	127,813	127,813	-
-	-	-	-	-	-	78,727	78,727	-
6,555	6,555	-	-	-	-	6,555	6,555	-
6,555	6,555	-	77,397	77,397	-	4,328,362	4,328,362	-
(6,555)	(6,555)	-	(16,827)	(16,827)	-	(179,471)	(179,471)	-
-	-	-	-	-	-	179,988	179,988	-
-	-	-	-	-	-	(179,488)	(179,488)	-
6,555	6,555	-	-	-	-	10,798	10,798	-
-	-	-	-	-	-	(37,403)	(37,403)	-
-	-	-	-	-	-	(2,937)	(2,937)	-
6,555	6,555	-	-	-	-	(29,042)	(29,042)	-
-	-	-	(16,827)	(16,827)	-	(208,513)	(208,513)	-
-	-	-	42,896	42,896	-	1,516,768	1,516,768	-
-	-	-	5,014	5,014	-	190,006	190,006	-
$ -	$ -	$ -	$ 31,083	$ 31,083	$ -	$ 1,498,261	$ 1,498,261	$ -

CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Total (Memorandum Only)
Operating revenues:			
Sales/charges for services	$ 91,252	$ -	$ 91,252
Investment earnings	-	4,823	4,823
Total operating revenues	91,252	4,823	96,075
Operating expenses:			
Personal services	106,027	-	106,027
Contract services	1,089	-	1,089
Materials and supplies	98,612	-	98,612
Depreciation	1,868	-	1,868
Other	1,063	10,000	11,063
Total operating expenses	208,659	10,000	218,659
Operating loss	(117,407)	(5,177)	(122,584)
Nonoperating revenues:			
Operating grants	86,155	-	86,155
Investment earnings	60	-	60
Federal commodities	9,799	-	9,799
Total nonoperating revenues	96,014	-	96,014
Net loss before operating transfers	(21,393)	(5,177)	(26,570)
Operating transfers in	26,605	-	26,605
Net income (loss)	5,212	(5,177)	35
Accumulated deficit/fund balance, July 1	(5,774)	214,538	208,764
Accumulated deficit/fund balance, June 30	$ (562)	$ 209,361	$ 208,799

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Total (Memorandum Only)
Cash flows from operating activities:			
Cash received from sales/service charges	$ 91,252	$ -	$ 91,252
Cash payments for personal services	(106,088)	-	(106,088)
Cash payments for contract services	(1,089)	-	(1,089)
Cash payments for materials and supplies	(90,159)	-	(90,159)
Cash payments for other expenses	(1,063)	(10,000)	(11,063)
Net cash used in operating activities	(107,147)	(10,000)	(117,147)
Cash flows from noncapital financing activities:			
Cash received from operating grants	74,013	-	74,013
Cash received operating transfers in	26,605	-	26,605
Net cash provided by noncapital financing activities	100,618	-	100,618
Cash flows from investing activities:			
Interest received	60	4,823	4,883
Net cash provided by investing activities	60	4,823	4,883
Net decrease in cash and cash equivalents	(6,469)	(5,177)	(11,646)
Cash and cash equivalents at beginning of year	6,946	214,538	221,484
Cash and cash equivalents at end of year	$ 477	$ 209,361	$ 209,838
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$ (117,407)	$ (5,177)	$ (122,584)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	1,868	-	1,868
Federal donated commodities	9,799	-	9,799
Interest reported as operating income	-	(4,823)	(4,823)
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(88)	-	(88)
Increase in accrued wages and benefits	1,489	-	1,489
Increase in compensated absences payable	343	-	343
Decrease in pension obligation payable	(1,926)	-	(1,926)
Increase in due to other governments	33	-	33
Decrease in deferred revenue	(1,258)	-	(1,258)
Net cash used in operating activities	$ (107,147)	$ (10,000)	$ (117,147)

The notes to the general purpose financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE SCHOOL DISTRICT

Conotton Valley Union Local School District (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 the 606th largest in the State of Ohio (among 740 public and community school districts) in terms of total enrollment. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the District's 4 instructional/support facilities staffed by 31 classified and 47 certificated full-time teaching personnel, who provide services to 554 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JOINTLY GOVERNED ORGANIZATION

Ohio Mid-Eastern Regional Education Service Agency
Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) is a not-for-profit computer service organization whose primary function is to provide information technology services to its member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

The OME-RESA is one of 23 regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

The OME-RESA is owned and operated by 49 member school districts in 10 different Ohio counties. The member school districts are comprised of public school districts and county boards of education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a board of directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the board of directors.

The OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan
The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tuscarawas-Harrison County School Benefit Trust Health Consortium

The Tuscarawas-Harrison County School Benefit Trust Health Consortium (the "Trust") is a public entity shared risk pool consisting of the District and two County Educational Service Centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 510(c)(9) of the Internal Revenue Code and provides sick, and in some cases, dental, vision, and prescription drug benefits to the employees of the participating entities. Each participating entity's Superintendent is appointed to an Administrative Committee which advises the Third-Party Administrator, CoreSource Insurance, concerning aspects of the administration of the Trust.

Each entity decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from CoreSource, Inc., 229 Huber Village Blvd., Westerville, Ohio 43081.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. 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. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District and 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 general laws of the State of Ohio.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities, which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body 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 (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

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 governmental units and/or other funds. These include expendable trust, nonexpendable trust and an agency fund. The expendable trust fund is accounted for in the same manner as governmental funds. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items, which, in other fund types, would be subject to accrual. The agency fund had no accruals at June 30, 2003, which, in other fund types, would be recognized in the combined balance sheet.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

2. 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 funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes (to the extent they are intended to finance the current fiscal year), interest, intergovernmental grants (to the extent they are intended to finance the current fiscal year) and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2003, and which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 11 discloses encumbrances outstanding for the enterprise funds at fiscal year-end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. 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 Cash Equivalents" on the combined balance sheet.

During fiscal year 2003, investments were limited to a certificate of deposit, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), and a repurchase agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposit and repurchase agreements, are reported at cost.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the nonexpendable trust fund. Interest revenue credited to the general fund during fiscal 2003 amounted to $24,304, which includes $367 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories of proprietary funds are stated at the lower of cost or market (first-in/first-out method) and expensed when used.

G. Fixed Assets and Depreciation

1. *General Fixed Assets Account Group*

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than $500, except for the cost of textbooks and library books. This is based primarily on the uniqueness of these items to a school operation and on an existing textbook adoption policy. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. *Proprietary Funds*

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset	Life (years)
Furniture and equipment	10 - 20

H. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service, regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

I. 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 government fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Equity

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 encumbrances, prepayments, tax revenue unavailable for appropriation, principal endowment, Bureau of Workers' Compensation (BWC) refunds, textbooks and capital acquisition. Although the nonexpendable trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

K. Interfund Transactions

During the course of normal operations, the District may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2003.

4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2003.

An analysis of interfund transactions is presented in Note 5.

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 16 for details.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Estimates

The preparation of GPFS in conformity with GAAP 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.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Total Columns on the General Purpose Financial Statements

Total columns on the GPFS 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 changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

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

	Deficit Balance
Special Revenue Funds	
Management Information Systems	$ 39
Enterprise Funds	
Food Service	885
Youth Center	133

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balances in the special revenue funds are caused by accruing wage, benefit and pension obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

The deficit retained earnings in the enterprise funds are caused by accruing wage and benefit obligations in accordance with GAAP. These deficits will be eliminated by user charges and intergovernmental revenues not recognized at June 30.

4. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and

8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the District's deposits, including a nonnegotiable certificate of deposit, was $113,193 and the bank balance, including a nonnegotiable certificate of deposit, was $224,858. Of the bank balance:

1. $100,060 was covered by federal depository insurance; and

2. $124,798 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states.

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty'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 counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized because it is not evidenced by securities that exist in physical or book entry form.

	Category 3	**Reported Amount**	**Fair Value**
Repurchase agreement	$1,458,967	$1,458,967	$1,458,967
Total	$1,458,967		
Investment in STAR Ohio		277,789	277,789
Total Investments		$1,736,756	$1,736,756

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, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of equity in pooled cash and cash equivalents and investments on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	**Investments**
GASB Statement No. 9	$ 1,849,949	$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(277,789)	277,789
Repurchase agreement	(1,458,967)	1,458,967
GASB Statement No. 3	$ 113,193	$1,736,756

5 - INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District's operating transfers for fiscal year 2003:

	Transfers In	Transfers Out
General Fund	$ -	$33,160
Debt Service Fund		
Bond Retirement	6,555	-
Enterprise Funds		
Food Service	26,089	
Youth Center	516	-
Totals	$33,160	$33,160

B. Interfund balances at June 30, 2003, consist of the following individual interfund loans receivable and payable:

	Interfund Receivable	Interfund Payable
General Fund	$48,558	$ -
Special Revenue Fund		
Title VI-B	-	17,363
Title I	-	2,890
Title VI	-	1,236
Drug-Free Grant	-	2,930
Class Reduction	-	12,197
Miscellaneous Federal Grants	-	347
Enterprise Funds		
Food Service	-	6,941
Youth Center	-	154
Agency Fund		
Student Managed Activity	-	4,500
Totals	$48,558	$48,558

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

6. PROPERTY TAXES (Continued)

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market and railroads, which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was $55,475,050. Agricultural/residential and public utility/minerals real estate represented 76.69% or $42,542,180 of this total; commercial & industrial real estate represented 8.91% or $4,945,530 of this total; public utility tangible represented 9.77% or $5,419,180 of this total and general tangible property represented 4.63% or $2,568,160 of this total. The voted general tax rate at the fiscal year ended June 30, 2003 was $47.28 per $1,000.00 of assessed valuation for operations and $2.00 per $1,000.00 of assessed valuation for permanent improvements.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The District receives property taxes from Harrison and Carroll Counties. The respective County Treasurers collect property taxes on behalf of the District. The respective County Auditors periodically remit to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. The amount available as an advance, and recorded as revenue, at June 30, 2003, was $178,820 in the general fund, and $5,772 in the Permanent Improvement capital projects fund.

Taxes available for advance and recognized as revenue, but not received by the district prior to June 30, 2003, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

7. RECEIVABLES

Receivables at June 30, 2003, consisted of taxes, interfund loans and intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as “Due From Other Governments” on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of receivables follows:

7. RECEIVABLES (Continued)

	Amounts
General Fund	
Taxes - current and delinquent	$1,989,943
Interfund loan	48,558
Special Revenue Funds	
Due from other governments	45,677
Capital Projects Funds	
Taxes - current and delinquent	56,235
Enterprise Funds	
Due from other governments	12,142

8. FIXED ASSETS

A. General Fixed Assets

A summary of the changes in the general fixed asset account group during fiscal year 2003 follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land/improvements	$ 158,848	$ -	$ -	$ 158,848
Buildings/improvements	977,550	81,216	-	1,058,766
Furniture/equipment	867,867	30,060	-	897,927
Vehicles	579,024	96,741	(19,200)	656,565
Textbooks	365,445	-	-	365,445
Total	$2,948,734	$208,017	$(19,200)	$3,137,551

There was no significant construction in progress at June 30, 2003.

B. Proprietary Fixed Assets

A summary of the proprietary fixed assets at June 30, 2003 follows:

Furniture and equipment	$ 91,235
Less: accumulated depreciation	(80,989)
Net fixed assets	$ 10,246

9. LONG-TERM OBLIGATIONS

A. The District received a loan from the U.S. Environmental Protection Agency for an asbestos abatement project. The loan is interest free as long as the District remains current on repayment. Payments related to this loan are made from the general fund. The following schedule describes the loan:

9. LONG-TERM OBLIGATIONS (Continued)

Purpose	Issue Date	Maturity Date	Loan Outstanding July 1, 2002	Retired in 2003	Loan Outstanding June 30, 2003
Asbestos Abatement	05/30/94	05/30/03	$ 6,555	$ (6,555)	$ -

B. During the year ended June 30, 2003, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

	Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003
Compensated absences	$118,079	$41,114	$ -	$159,193
Pension obligation payable	36,528	35,681	(36,528)	35,681
Asbestos loan payable	6,555	-	(6,555)	-
Total	$161,162	$76,795	$(43,083)	$194,874

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of $4,992,755 and an unvoted debt margin $55,475.

10. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

Coverage	Insurer	Limits of Coverage	Deductible
General liability:	Nationwide/Wausau		
Each occurrence		$ 1,000,000	$1,000
Aggregate		3,000,000	1,000
Building and contents	Indiana Insurance Co.	11,365,574	1,000
Fleet:	Indiana Insurance Co.		
Comprehensive/liability		2,000,000	0
Collision		2,000,000	100
Uninsured motorist		1,000,000	500

10. RISK MANAGEMENT (Continued)

B. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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.

C. Group Health Insurance

The District has elected to provide health care benefits to employees and administrators through the Tuscarawas-Harrison County School Benefit Trust Health Consortium. The employees share the cost of the monthly premium with the Board.

11. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and a youth center. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2003.

	Food Service	Uniform School Supplies	Youth Center	Total
Operating revenue	$ 88,756	$ 1,961	$ 535	$ 91,252
Operating expenses before depreciation	202,447	3,314	1,030	206,791
Depreciation	1,868	-	-	1,868
Operating loss	(115,559)	(1,353)	(495)	(117,407)
Operating grants	86,155	-	-	86,155
Federal commodities	9,799	-	-	9,799
Operating transfers in	26,089	-	516	26,605
Net income (loss)	6,544	(1,353)	21	5,212
Net working capital	(6,023)	456	(133)	(5,700)
Total assets	25,392	456	21	25,869
Total liabilities	26,277	-	154	26,431
Total equity	(885)	456	(133)	(562)

12. DEFINED BENEFIT PENSION PLANS

A. State Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2003, 8.17% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were $64,870, $63,597, and $62,163, respectively; 43.57% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. $36,612 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

12. DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were $231,276, $220,080, and $216,979, respectively; 83.46% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. $38,260 represents the unpaid contribution for fiscal year 2003.

C. Social Security System

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

13. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled $16,520 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was $3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were $354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at $12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were $182.947 million and the target level was $274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of $335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled $41,402 during the 2003 fiscal year.

14. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

14. BUDGETARY BASIS OF ACCOUNTING

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the 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 paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses

	Governmental Fund Types		
	General	Special Revenue	Capital Project
Budget basis	$(141,103)	$(50,583)	$(16,827)
Net adjustment for revenue accruals	178,650	(13,838)	5,756
Net adjustment for expenditure accruals	(25,860)	4,018	(1)
Net adjustment for other financing sources/(uses)	17,476	(15,039)	-
Encumbrances (budget basis)	77,862	45,021	546
GAAP basis	$ 107,025	$(30,421)	$(10,526)

15. CONTINGENCIES

A. Grants

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

15. CONTINGENCIES

B. Litigation

The District is not currently a party to any legal proceedings.

C. School Funding Decision

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

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

16. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisition	BWC Refunds
Set-aside cash balance as of June 30, 2002	$ 79,397	$ 0	$17,028
Current year set-aside requirement	74,427	74,427	-
Current year offsets	-	(51,257)	-
Qualifying disbursements	(61,945)	(126,137)	-
Total	$ 91,879	$(102,967)	$17,028
Cash balance carried forward to FY 2004	$ 91,879	$ 0	$17,028

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

Amount restricted for BWC refunds	$ 17,028
Amount restricted for textbooks	91,879
Total restricted assets	$108,907

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

Conotton Valley Union Local School District
Harrison County
21 Mound Street
P.O. Box 187
Sherrodsville, Ohio 44675

To the Board of Education:

We have audited the accompanying general purpose financial statements of Conotton Valley Union Local School District, Harrison County (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* However, we noted a certain immaterial instance of noncompliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited ay occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted 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 January 30, 2004.

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This report is intended solely for the information and use of the audit committee, management and Board of Education, and is not intended to be and should not be used by anyone than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

January 30, 2004

Auditor of State
Betty Montgomery

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CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT

HARRISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 22, 2004