

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

Board of Education
Conneaut Area City School District
400 Mill Street, Suite B
Conneaut, Ohio 44030

We have reviewed the *Independent Auditor's Report* of the Conneaut Area City School District, Ashtabula County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2007 to June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 15, 2008

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CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Conneaut Area City School District

The Honorable Mary Taylor
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Conneaut Area City School District, Ohio, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Conneaut Area City School District, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

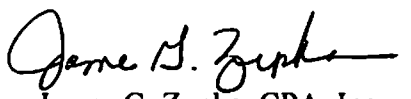
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Conneaut Area City School District, Ohio, as of June 30, 2008, and the respective changes in financial position and the respective budgetary comparison for the general fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, on our consideration of the Conneaut Area City School District, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Conneaut Area City School District, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and also is not a required part of the basic financial statements of the Conneaut Area City School District, Ohio. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements of the Conneaut Area City School District, Ohio, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


James G. Zupka, CPA, Inc.
Certified Public Accountants

November 17, 2008

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Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The management's discussion and analysis of Conneaut Area City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for fiscal year 2008 are as follows:

- Two five-year emergency levies were defeated in November and March which resulted in the Board of Education making difficult decisions to keep the School District fiscally solvent.
 - The School District cut several programs which resulted in the elimination of certified, classified and supplemental positions.
 - The School District, in an effort to further save on costs, began to hire lower salaried personnel to replace retiring, higher salaried personnel.
 - Another very difficult decision that the Board of Education made was to reduce bussing to the State minimum.
 - Multiple sports were eliminated to save on costs. Through a great and generous effort on their part, a local citizens group (Save Our Sports) organized fundraisers to support the sports programs that were cut. The group raised \$55,000 and presented a check to the Board of Education to cover all costs of sports cut throughout the School District. Those sports programs were re-instated by the School District.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Conneaut Area City School District, the general fund, the bond retirement debt service fund, and the permanent improvement capital projects fund are the more significant funds.

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2008?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are classified as governmental. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food service operations and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement debt service fund and the permanent improvement capital projects fund.

Governmental Funds

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

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The School District as a Whole

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net Assets for 2008 compared to 2007:

(Table 1)
 Net Assets
 Governmental Activities

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Assets			
Current and Other Assets	\$11,797,647	\$12,138,514	(\$340,867)
Capital Assets	<u>41,197,355</u>	<u>42,933,709</u>	<u>(1,736,354)</u>
<i>Total Assets</i>	<u>52,995,002</u>	<u>55,072,223</u>	<u>(2,077,221)</u>
Liabilities			
Current Liabilities	4,311,329	5,117,499	(806,170)
Long-Term Liabilities			
Due within One Year	416,082	369,916	46,166
Due in More than One Year	<u>6,021,356</u>	<u>6,366,843</u>	<u>(345,487)</u>
<i>Total Liabilities</i>	<u>10,748,767</u>	<u>11,854,258</u>	<u>(1,105,491)</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	36,121,460	37,617,814	(1,496,354)
Restricted for:			
Capital Projects	2,644,854	2,434,852	210,002
Debt Service	1,237,800	1,094,051	143,749
Set Asides	577,233	462,097	115,136
Other Purposes	846,959	346,608	500,351
Unrestricted	<u>817,929</u>	<u>1,262,543</u>	<u>(444,614)</u>
<i>Total Net Assets</i>	<u>\$42,246,235</u>	<u>\$43,217,965</u>	<u>(\$971,730)</u>

As one can see from the decrease in overall net assets, the School District ability to provide the services that the School District citizens expect while maintaining the costs of providing those services has been challenged.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for 2008 and 2007.

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

(Table 2)
 Change in Net Assets
 Governmental Activities

	2008	2007	Change
Revenues			
<i>Program Revenues</i>			
Charges for Services and Sales	\$574,914	\$544,835	\$30,079
Operating Grants and Contributions	3,980,454	2,924,807	1,055,647
Capital Grants and Contributions	13,094	21,268	(8,174)
<i>Total Program Revenues</i>	4,568,462	3,490,910	1,077,552
<i>General Revenues</i>			
Property Taxes	4,619,664	5,172,096	(552,432)
Grants and Entitlements not Restricted	11,907,954	12,024,131	(116,177)
Investment Earnings	300,583	367,734	(67,151)
Gain on Sale of Capital Assets	0	131,507	(131,507)
Miscellaneous	232,136	157,521	74,615
<i>Total General Revenues</i>	17,060,337	17,852,989	(792,652)
<i>Total Revenues</i>	21,628,799	21,343,899	284,900
Program Expenses			
Current:			
Instruction:			
Regular	10,193,663	10,086,040	107,623
Special	2,654,937	2,346,161	308,776
Vocational	54,175	65,670	(11,495)
Support Services:			
Pupils	1,077,647	1,127,556	(49,909)
Instructional Staff	1,373,719	1,369,736	3,983
Board of Education	39,052	32,759	6,293
Administration	1,686,961	1,483,089	203,872
Fiscal	428,714	402,376	26,338
Operation and Maintenance of Plant	2,304,418	2,189,624	114,794
Pupil Transportation	1,049,469	959,627	89,842
Central	83,331	75,360	7,971
Extracurricular Activities	421,699	459,170	(37,471)
Operation of Non-Instructional Services:			
Food Service Operations	942,902	894,343	48,559
Interest and Fiscal Charges	289,842	302,127	(12,285)
<i>Total Program Expenses</i>	22,600,529	21,793,638	806,891
<i>Decrease in Net Assets</i>	(971,730)	(449,739)	(521,991)
Net Assets Beginning of Year	43,217,965	43,667,704	(449,739)
<i>Net Assets End of Year</i>	\$42,246,235	\$43,217,965	(\$971,730)

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus School District's dependence upon property taxes is hampered by a lack of revenue growth so it must regularly return to the voters to maintain a constant level of service. Property taxes made up 21.36 percent of revenues for governmental activities for Conneaut Area City School District in fiscal year 2008 versus 24.23 percent in fiscal year 2007 and 25.27 percent in fiscal year 2006. The School District has not gone to the community for an operating levy since 1991. The School District has prudently managed expenses within revenues over the prior fifteen years. The School District placed an emergency levy on the November and March ballots. Due to the defeats of both emergency levies, the School District has made budget and personnel reductions totaling \$700,000 for fiscal year 2009. The School District has carefully planned its financial existence by forecasting its revenue and expenses over the next five years.

Although the School District relies upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset operating costs.

All instructional, administrative and operation and maintenance of plant expenses increased due to the School District giving a 1 percent negotiated wage increase coupled with step increases which on average were 1.98 percent and increases from rising healthcare costs which increased premiums 10 percent. The School District continues to show vigilance in monitoring all facets of spending.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2008 compared to 2007.

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

(Table 3)

	Governmental Activities			
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
	Instruction	\$12,902,775	\$10,808,887	\$12,497,871
Support Services:				
Pupils and Instructional Staff	2,451,366	1,560,067	2,497,292	1,766,079
Board of Education, Administration, and Fiscal	2,154,727	1,999,999	1,918,224	1,825,413
Operation and Maintenance of Plant	2,304,418	2,230,051	2,189,624	2,184,142
Pupil Transportation	1,049,469	1,036,375	959,627	938,359
Central	83,331	70,916	75,360	66,014
Extracurricular Activities	421,699	57,225	459,170	281,249
Operation of Non- Instructional Services:				
Food Service Operations	942,902	(21,295)	894,343	115,612
Interest and Fiscal Charges	289,842	289,842	302,127	302,127
<i>Total Expenses</i>	<u>\$22,600,529</u>	<u>\$18,032,067</u>	<u>\$21,793,638</u>	<u>\$18,302,728</u>

The dependence upon general revenues for governmental activities is apparent as local property tax accounts for roughly 21.36 percent and grants and entitlements account for 55.06 percent of the total revenues in fiscal year 2008. This amount is approximately the same as in 2007. 83.77 percent of instructional activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 78.88 percent of total governmental revenues.

The School District's Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,607,542 and expenditures of \$21,164,398. The net change in the general fund was a decrease of \$279,099 due to expenditures exceeding revenues. The change in other governmental funds increased \$486,333 due to the School District receiving more grant monies.

General Fund Budgeting Highlights

Budgeting is prescribed by the Ohio Revised Code. Essentially, the budget is the School District's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the Revised Code. During the course of fiscal year 2008, the School District amended its general fund budget numerous times to allow for insignificant amendments. Actual revenues received were \$91,503 higher than the certification primarily due to conservative estimates for property taxes. Actual expenditures were \$341,703 less than appropriations due mainly to the diligence of management to keep costs low while still providing the services the School District citizens expect.

Conneaut Area City School District
Management's Discussion and Analysis
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The School District uses a site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management. Building principals are given a per pupil allocation for textbook, instructional materials and equipment. HB 412 requires the School District to set aside three percent of certain general fund revenues for the purchase of textbooks and materials related to instruction which site-based budgets help to meet.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008 the School District had \$41,197,355 invested in governmental activities capital assets. Table 4 shows fiscal year 2008 balances compared to fiscal year 2007:

(Table 4)
 Capital Assets at June 30
 Net of Depreciation
 Governmental Activities

	2008	2007
Land	\$1,022,168	\$1,022,168
Land Improvements	1,244,369	1,314,608
Buildings and Improvements	36,906,458	38,237,995
Furniture and Fixtures	1,578,646	1,694,198
Vehicles	424,545	486,760
Textbooks	21,169	177,980
Total	\$41,197,355	\$42,933,709

For fiscal year 2008, capital assets decreased \$1,736,354. This decrease was due to an additional year of depreciation being taken offset with limited additions to land improvements and furniture and fixtures. Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2008, this amounted to \$364,677 for each set aside. See Note 9 to the basic financial statements for additional information on the School District's capital assets and Note 19 for additional information regarding required set-asides.

Debt

At June 30, 2008, the School District had \$6,437,438 in long-term liabilities outstanding. Table 5 summarizes the long-term liabilities outstanding:

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

(Table 5)
 Outstanding Long-Term Obligations

	Governmental Activities	
	2008	2007
2001 Classroom Facilities Improvement		
Bonds - 4.10 - 5.10%		
Current Interest Serial Bonds	\$3,545,000	\$3,785,000
Capital Appreciation Bonds	190,895	190,895
Accretion on Capital		
Appreciation Bonds	246,063	201,059
Current Issue Term Bonds	1,340,000	1,340,000
<i>Total General Obligation Bonds</i>	5,321,958	5,516,954
Compensated Absences	1,115,480	1,219,805
<i>Totals</i>	\$6,437,438	\$6,736,759

The Classroom Facilities Improvement general obligation bonds were issued for the School District portion of the Ohio School Facilities Commission project. These bonds will be fully repaid in calendar year 2023.

The School District's overall legal debt margin was \$12,512,725 with an unvoted debt margin of \$179,043.

Additional information concerning debt issuances can be found in Note 15 to the basic financial statements.

Challenges and Opportunities

Conneaut Area City School District has continued to maintain the highest standards of service to our students, parents and community. The School District is always presented with challenges and opportunities. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. Recent national events and their impact on the Conneaut Area City School District and the surrounding area are very much under review and analysis. Economic recession has had major impact on our industries. We have limited local industry, but we are a much diversified community with many residents working outside our School District in varying types of employment.

The School District is not without its share of challenges. The need for additional funds for operating is seen as the newest challenge for the School District. Another example is seen in low interest rates being very good for issuing debt, but not attractive for maintaining investment revenues. And finally, actions of local and state governments continue to impact the School District. Like many school districts in the State of Ohio, the School District remains vigilant to financially meet the academic needs of all of the students as well as remain cost efficient in its operations.

As a result of the challenges mentioned, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

The Board of Education continues to use a proactive stance in dealing with the financial situation at the School District. This was evidenced through the resignation of a School District principal, where the Board

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

of Education decided to leave the position vacant for fiscal year 2009 and to re-instate full bussing for students with the cost savings.

The Board of Education is again going to the citizens of the School District and is looking for the support to pass a five-year, \$1,300,000 emergency levy on the November 4, 2008 ballot. It will take approximately 7.35 mills to raise those dollars.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Linda Bryan, Treasurer at Conneaut Area City School District, 400 Mill Street. Suite B, Conneaut, Ohio 44030 or email at linda.bryan@neomin.org.

Basic Financial Statements

Conneaut Area City School District

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,113,384
Accounts Receivable	13,825
Intergovernmental Receivable	493,444
Inventory Held for Resale	19,322
Materials and Supplies Inventory	57,813
Taxes Receivable	4,099,859
Nondepreciable Capital Assets	1,022,168
Depreciable Capital Assets, Net	<u>40,175,187</u>
<i>Total Assets</i>	<u>52,995,002</u>
Liabilities	
Accounts Payable	264,037
Accrued Wages	1,546,311
Intergovernmental Payable	484,024
Matured Compensated Absences Payable	161,082
Accrued Interest Payable	19,576
Deferred Revenue	1,836,299
Long-Term Liabilities:	
Due Within One Year	416,082
Due in More Than One Year	<u>6,021,356</u>
<i>Total Liabilities</i>	<u>10,748,767</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	36,121,460
Restricted for:	
Capital Projects	2,644,854
Debt Service	1,237,800
Set Asides	577,233
Other Purposes	846,959
Unrestricted	<u>817,929</u>
<i>Total Net Assets</i>	<u><u>\$42,246,235</u></u>

See accompanying notes to the basic financial statements

See accountant's compilation report

Conneaut Area City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues				Net Revenue/(Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions	Capital Grants	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$10,193,663	\$200,049	\$558,816	\$0	(\$9,434,798)
Special	2,654,937	0	1,335,023	0	(1,319,914)
Vocational	54,175	0	0	0	(54,175)
Support Services:					
Pupils	1,077,647	0	401,904	0	(675,743)
Instructional Staff	1,373,719	0	489,395	0	(884,324)
Board of Education	39,052	0	0	0	(39,052)
Administration	1,686,961	0	154,728	0	(1,532,233)
Fiscal	428,714	0	0	0	(428,714)
Operation and Maintenance					
of Plant	2,304,418	2,620	71,747	0	(2,230,051)
Pupil Transportation	1,049,469	0	0	13,094	(1,036,375)
Central	83,331	0	12,415	0	(70,916)
Extracurricular Activities	421,699	114,306	250,168	0	(57,225)
Operation of Non-Instructional Services:					
Food Service Operations	942,902	257,939	706,258	0	21,295
Interest and Fiscal Charges	289,842	0	0	0	(289,842)
<i>Totals</i>	<u>\$22,600,529</u>	<u>\$574,914</u>	<u>\$3,980,454</u>	<u>\$13,094</u>	<u>(18,032,067)</u>

General Revenues

Property Taxes Levied for:

General Purposes	3,789,275
Debt Service	552,143
Capital Outlay	208,685
Classroom Facilities Maintenance	69,561
Grants and Entitlements not Restricted to Specific Programs	11,907,954
Investment Earnings	300,583
Miscellaneous	232,136

Total General Revenues

17,060,337

Change in Net Assets

(971,730)

Net Assets Beginning of Year

43,217,965

Net Assets End of Year

\$42,246,235

See accompanying notes to the basic financial statements
See accountant's compilation report

Conneaut Area City School District

Balance Sheet

Governmental Funds

June 30, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,154,733	\$987,262	\$1,501,086	\$1,877,248	\$6,520,329
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	593,055	0	0	0	593,055
Receivables:					
Taxes	3,361,729	487,532	187,948	62,650	4,099,859
Accounts	10,376	0	0	3,449	13,825
Intergovernmental	0	0	0	493,444	493,444
Interfund Receivable	31,268	0	0	0	31,268
Inventory Held for Resale	0	0	0	19,322	19,322
Materials and Supplies Inventory	54,933	0	0	2,880	57,813
<i>Total Assets</i>	<u>\$6,206,094</u>	<u>\$1,474,794</u>	<u>\$1,689,034</u>	<u>\$2,458,993</u>	<u>\$11,828,915</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$184,573	\$0	\$7,970	\$71,494	\$264,037
Accrued Wages	1,267,480	0	0	278,831	1,546,311
Intergovernmental Payable	408,812	0	0	75,212	484,024
Interfund Payable	0	0	0	31,268	31,268
Deferred Revenue	1,990,458	285,688	110,890	298,123	2,685,159
Matured Compensated Absences Payable	152,140	0	0	8,942	161,082
<i>Total Liabilities</i>	<u>4,003,463</u>	<u>285,688</u>	<u>118,860</u>	<u>763,870</u>	<u>5,171,881</u>
Fund Balances:					
Reserved for Encumbrances	41,744	0	200	74,440	116,384
Reserved for Property Taxes	1,371,271	201,844	77,058	25,686	1,675,859
Reserved for Unclaimed Monies	2,728	0	0	0	2,728
Reserved for Textbooks	577,233	0	0	0	577,233
Reserved for Bus Purchase	13,094	0	0	0	13,094
Unreserved, Undesignated, Reported in:					
General Fund	196,561	0	0	0	196,561
Special Revenue Funds	0	0	0	567,004	567,004
Debt Service Fund	0	987,262	0	0	987,262
Capital Projects Funds	0	0	1,492,916	1,027,993	2,520,909
<i>Total Fund Balances</i>	<u>2,202,631</u>	<u>1,189,106</u>	<u>1,570,174</u>	<u>1,695,123</u>	<u>6,657,034</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,206,094</u>	<u>\$1,474,794</u>	<u>\$1,689,034</u>	<u>\$2,458,993</u>	<u>\$11,828,915</u>

See accompanying notes to the basic financial statements

See accountant's compilation report

Conneaut Area City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2008*

Total Governmental Funds Balances	\$6,657,034
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	41,197,355
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	587,701
Grants	<u>261,159</u>
Total	848,860
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(19,576)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(5,321,958)
Compensated Absences	<u>(1,115,480)</u>
Total	<u>(6,437,438)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$42,246,235</u></u>

See accompanying notes to the basic financial statements
 See accountant's compilation report

Conneaut Area City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$3,764,191	\$544,970	\$206,501	\$68,833	\$4,584,495
Intergovernmental	11,876,256	89,156	41,334	3,652,900	15,659,646
Interest	201,674	0	0	101,182	302,856
Charges for Services	4,469	0	0	257,939	262,408
Tuition and Fees	174,215	0	0	26,426	200,641
Extracurricular Activities	0	0	0	109,837	109,837
Rentals	2,028	0	0	0	2,028
Contributions and Donations	0	0	0	253,495	253,495
Miscellaneous	101,524	0	0	130,612	232,136
<i>Total Revenues</i>	<u>16,124,357</u>	<u>634,126</u>	<u>247,835</u>	<u>4,601,224</u>	<u>21,607,542</u>
Expenditures					
Current:					
Instruction:					
Regular	8,166,167	0	0	490,240	8,656,407
Special	1,408,556	0	0	1,286,445	2,695,001
Vocational	50,115	0	0	0	50,115
Support Services:					
Pupils	716,891	0	0	350,357	1,067,248
Instructional Staff	811,661	0	0	414,331	1,225,992
Board of Education	39,052	0	0	0	39,052
Administration	1,576,666	0	0	133,262	1,709,928
Fiscal	406,292	12,712	0	1,707	420,711
Operation and Maintenance of Plant	2,016,723	0	0	243,494	2,260,217
Pupil Transportation	929,867	0	0	3,111	932,978
Central	55,382	0	0	10,753	66,135
Extracurricular Activities	212,960	0	0	205,827	418,787
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	918,937	918,937
Capital Outlay	0	0	147,599	69,551	217,150
Debt Service:					
Principal Retirement	0	240,000	0	0	240,000
Interest and Fiscal Charges	0	245,740	0	0	245,740
<i>Total Expenditures</i>	<u>16,390,332</u>	<u>498,452</u>	<u>147,599</u>	<u>4,128,015</u>	<u>21,164,398</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(265,975)</u>	<u>135,674</u>	<u>100,236</u>	<u>473,209</u>	<u>443,144</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	13,124	13,124
Transfers Out	(13,124)	0	0	0	(13,124)
<i>Total Other Financing Sources (Uses)</i>	<u>(13,124)</u>	<u>0</u>	<u>0</u>	<u>13,124</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(279,099)</u>	<u>135,674</u>	<u>100,236</u>	<u>486,333</u>	<u>443,144</u>
<i>Fund Balances Beginning of Year</i>	<u>2,481,730</u>	<u>1,053,432</u>	<u>1,469,938</u>	<u>1,208,790</u>	<u>6,213,890</u>
<i>Fund Balances End of Year</i>	<u>\$2,202,631</u>	<u>\$1,189,106</u>	<u>\$1,570,174</u>	<u>\$1,695,123</u>	<u>\$6,657,034</u>

See accompanying notes to the basic financial statements
See accountant's compilation report

Conneaut Area City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances -Total Governmental Funds \$443,144

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital Asset Additions	64,367
Current Year Depreciation	<u>(1,800,193)</u>

Total (1,735,826)

Governmental Funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (528)

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

Property Taxes	35,169
Grants	71,786
CAFS Reimbursement	<u>(85,698)</u>

Total 21,257

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 240,000

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

Accrued Interest	902
Bond Accretion	<u>(45,004)</u>

Total (44,102)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 104,325

Change in Net Assets of Governmental Activities (\$971,730)

See accompanying notes to the basic financial statements
See accountant's compilation report

Conneaut Area City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$3,968,930	\$3,860,943	\$3,943,575	\$82,632
Intergovernmental	11,952,613	11,874,693	11,876,256	1,563
Interest	202,971	206,000	201,674	(4,326)
Charges for Services	4,498	5,618	4,469	(1,149)
Tuition and Fees	175,335	174,215	174,215	0
Rentals	2,041	2,970	2,028	(942)
Miscellaneous	121,491	115,639	129,364	13,725
<i>Total Revenues</i>	<u>16,427,879</u>	<u>16,240,078</u>	<u>16,331,581</u>	<u>91,503</u>
Expenditures				
Current:				
Instruction:				
Regular	8,267,466	8,415,252	8,235,980	179,272
Special	1,404,531	1,403,840	1,391,310	12,530
Vocational	53,401	80,021	59,408	20,613
Support Services:				
Pupils	714,658	718,725	712,892	5,833
Instructional Staff	826,862	863,882	835,545	28,337
Board of Education	39,319	41,910	38,949	2,961
Administration	1,544,595	1,548,781	1,533,864	14,917
Fiscal	406,539	404,498	402,812	1,686
Operation and Maintenance of Plant	1,967,277	2,015,689	1,992,132	23,557
Pupil Transportation	938,671	971,011	942,738	28,273
Central	56,376	66,170	56,115	10,055
Extracurricular Activities	214,521	226,566	212,897	13,669
<i>Total Expenditures</i>	<u>16,434,216</u>	<u>16,756,345</u>	<u>16,414,642</u>	<u>341,703</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(6,337)</u>	<u>(516,267)</u>	<u>(83,061)</u>	<u>433,206</u>
Other Financing Sources (Uses)				
Advances In	54,458	54,110	45,463	(8,647)
Advances Out	(31,565)	(31,268)	(31,268)	0
Transfers Out	(13,249)	(13,124)	(13,124)	0
<i>Total Other Financing Sources (Uses)</i>	<u>9,644</u>	<u>9,718</u>	<u>1,071</u>	<u>(8,647)</u>
<i>Net Change in Fund Balance</i>	3,307	(506,549)	(81,990)	424,559
<i>Fund Balance Beginning of Year</i>	2,626,960	2,626,960	2,626,960	0
Prior Year Encumbrances Appropriated	67,698	67,698	67,698	0
<i>Fund Balance End of Year</i>	<u>\$2,697,965</u>	<u>\$2,188,109</u>	<u>\$2,612,668</u>	<u>\$424,559</u>

See accompanying notes to the basic financial statements
See accountant's compilation report

Conneaut Area City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$25,949</u></u>
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Liabilities

Due to Students	<u><u>\$25,949</u></u>
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See accompanying notes to the basic financial statements
See accountant's compilation report

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 1 - Description of the School District

Conneaut Area City School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and federal guidelines.

The School District was established in 1962 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 58 square miles. It is located in Ashtabula County. It is staffed by 111 non-certified employees and 168 certified full-time teaching personnel who provide services to 2,232 students and other community members. The School District currently operates five instructional buildings and a bus garage.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, agencies and offices that are not legally separate from the School District. For Conneaut Area City School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

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

The School District is associated with four jointly governed organizations and a risk sharing pool. These organizations are the Northeast Ohio Instructional Media Center, the Ashtabula County Joint Vocational School District, the Northeast Ohio Management Information Network, the Northeast Ohio Special Education Regional Resource Center and the Ashtabula County Schools Council of Governments, which are presented in Notes 16 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

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

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Bond Retirement Fund The bond retirement fund accounts for property tax revenues that are used for payment of principal and interest and fiscal charges on general obligation debt.

Permanent Improvement Fund The permanent improvement fund is used to account for all transactions related to the acquiring, construction, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District had no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level for the general fund and at the fund level for all other funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds, except the general fund, without resolution by the Board of Education.

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2008, investments were limited to a repurchase agreement and STAROhio. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2008.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$201,674, which includes \$84,686 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of donated and purchased food held for resale and materials and supplies held for consumption.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside to create a reserve for the purchases of textbooks, unspent restricted revenue for school buses and money set aside for unclaimed monies. See Note 19 for additional information regarding set asides.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Conneaut Area City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives
Land Improvements	5 to 10 years
Buildings and Improvements	20 to 50 years
Furniture and Equipment	8 to 20 years
Vehicles	10 years
Textbooks	6 years

J. Interfund Balances

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of service.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

L. Accrued Liabilities and Long-term Obligations

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

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$5,304,118, of which none is restricted by enabling legislation. Net assets restricted for other purposes include food service operations and extracurricular activities.

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

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation.

O. Internal Activity

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

P. Extraordinary and Special Items

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

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.

Note 3 – Change in Accounting Principles

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and STRS post-employment healthcare plans in the amounts of \$33,034 and \$11,769, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 4 – Accountability and Compliance

A. Accountability

Fund balances at June 30, 2008 included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Title I	\$40,123
Title VI-B	23,637
Reducing Class Size	12,467
Miscellaneous Federal Grants	4,922
Fruit and Vegetable	2,022
Preschool Disabilities	1,716

These deficits are caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

B. Compliance

The following funds had final appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Revised Code.

<u>Fund</u>	<u>Final Appropriations</u>	<u>Estimated Resources plus Carryover Balances</u>	<u>Difference</u>
<i>Special Revenue Funds:</i>			
Public School Support	\$135,038	\$128,957	\$6,081
Poverty Based Assistance	663,631	661,459	2,172
Uniform School Supply	46,058	44,135	1,923
Data Communications	12,766	12,000	766
Miscellaneous State Grants	55,741	55,234	507

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

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
 2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
 3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
 4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$279,099)
Net Adjustment for Revenue Accruals	207,224
Advances In	45,463
Net Adjustment for Expenditure Accruals	110,810
Advances Out	(31,268)
Encumbrances	<u>(135,120)</u>
Budget Basis	<u><u>(\$81,990)</u></u>

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of 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, 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 securities listed above;
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;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$184,300 of the School District's bank balance of \$399,300 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Conneaut Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Investments

As of June 30, 2008, the School District had the following investments.

	Carrying and Fair Value	Maturity
Repurchase Agreement	\$963,050	July 1, 2008
STAROhio	6,053,528	Average 53.8 Days
<i>Totals</i>	\$7,016,578	

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments. The securities underlying the repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that requires securities purchased pursuant to this division shall be delivered into the custody of the treasurer or governing board or an agent designated by the treasurer or governing board.

Credit Risk The securities underlying the repurchase agreement had a credit rating of AAA by Standard & Poor's. STAROhio carries a rating of AAA by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. As of June 30, 2008, the School District allocated 86.27 percent of its investments to STAROhio and 13.73 percent to the repurchase agreement.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Ashtabula County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2008 was \$1,371,271 in the general fund, \$201,844 in the bond retirement debt service fund, \$77,058 in the permanent improvement capital projects fund and \$25,686 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2007 was \$1,550,655 in the general fund, \$205,689 in the bond retirement debt service fund, \$85,986 in the permanent improvement capital projects fund and \$28,662 in the classroom facilities maintenance special revenue fund.

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$176,415,460	86.49 %	\$178,202,110	89.69 %
Public Utility Personal	12,465,380	6.11	6,359,880	3.20
Tangible Personal Property	<u>15,090,631</u>	<u>7.40</u>	<u>14,115,000</u>	<u>7.11</u>
Total	<u>\$203,971,471</u>	<u>100.00 %</u>	<u>\$198,676,990</u>	<u>100.00 %</u>
Tax Rate per \$1,000 of Assessed Valuation	\$37.63		\$37.63	

Note 8 - Receivables

Receivables at June 30, 2008, consisted of taxes, accounts (student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Title I	\$135,308
Title VI-B	115,413
Early Childhood Education	95,916
Miscellaneous Federal Grants	53,310
Classroom Reduction	34,020
Ohio Reads Grant	26,991
Preschool Disabilities Grant	15,048
Title IV	10,091
Title V	<u>7,347</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$493,444</u></u>

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 06/30/07	Additions	Deductions	Balance 06/30/08
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$1,022,168	\$0	\$0	\$1,022,168
<i>Capital Assets being Depreciated:</i>				
Land Improvements	1,633,405	13,976	0	1,647,381
Buildings and Improvements	45,676,222	0	0	45,676,222
Furniture and Equipment	2,438,725	50,391	(3,199)	2,485,917
Vehicles	1,288,695	0	0	1,288,695
Textbooks	523,438	0	0	523,438
<i>Total Capital Assets being Depreciated</i>	<u>51,560,485</u>	<u>64,367</u>	<u>(3,199)</u>	<u>51,621,653</u>
Less Accumulated Depreciation:				
Land Improvements	(318,797)	(84,215)	0	(403,012)
Buildings and Improvements	(7,438,227)	(1,331,537)	0	(8,769,764)
Furniture and Equipment	(744,527)	(165,415)	2,671	(907,271)
Vehicles	(801,935)	(62,215)	0	(864,150)
Textbooks	(345,458)	(156,811)	0	(502,269)
<i>Total Accumulated Depreciation</i>	<u>(9,648,944)</u>	<u>(1,800,193) *</u>	<u>2,671</u>	<u>(11,446,466)</u>
<i>Total Assets being Depreciated, Net</i>	<u>41,911,541</u>	<u>(1,735,826)</u>	<u>(528)</u>	<u>40,175,187</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$42,933,709</u>	<u>(\$1,735,826)</u>	<u>(\$528)</u>	<u>\$41,197,355</u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$1,568,565
Special	327
Vocational	4,060
Support Services:	
Pupils	450
Instructional Staff	102,610
Administration	3,409
Operation and Maintenance of Plant	8,080
Pupil Transportation	62,507
Central	18,024
Extracurricular Activities	2,289
Operation of Non-Instructional Services:	
Food Service Operations	29,872
Total Depreciation Expense	<u>\$1,800,193</u>

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 10 - Interfund Transactions

A. Interfund Transfers

The general fund transferred \$6,939 to the uniform school supplies special revenue fund and \$6,185 to the athletics and extracurricular activities special revenue fund. The transfers were to move unrestricted balances to support programs and projects accounted for in the uniform school supplies and the athletics and extracurricular activities funds.

B. Interfund Balance

Interfund balances at June 30, 2008, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$31,268. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

Note 11 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School District contracted with Indiana Insurance Agency for various types of insurance. Coverage is as follows:

Coverage	Amount
Blanket Building and Contents (\$2,500 Deductible)	\$57,775,483
Inland Marine(\$500 Deductible)	850,000
Business Auto - Liability (\$1,000 Deductible)	1,000,000
Uninsured Motorists - Comprehensive (\$1,000 Deductible)	500,000
Liability	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

B. Employee Medical Benefits

The School District participates in the Ashtabula County Schools Council of Governments, a shared risk pool (Note 18) to provide employee medical/surgical, prescription drug, dental and vision benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which the claim payments are made for all participating districts. Certified employees pay monthly premiums in the amount of \$180.12 for family and \$70.42 for single coverage. Classified employees pay monthly premiums of \$30 for family and \$5 for single for dental benefits.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

C. Worker's Compensation

For fiscal year 2008, workers' compensation coverage is provided by the State of Ohio. The School pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 12 - Pension Plans

A. School Employee Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$232,629, \$240,058 and \$256,842 respectively; 59.18 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$1,150,835, \$1,154,156, and \$1,341,158 respectively; 83.43 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$10,208 made by the School District and \$35,661 made by the plan members.

Note 13 - Postemployment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$37,660.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$106,156, \$79,699 and \$89,632 respectively; 59.18 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$16,761, \$16,324, and \$20,442 respectively; 59.18 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$88,526, \$88,781, and \$93,305 respectively; 83.43 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006

Note 14 – Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and the Treasurer earn ten to twenty days of vacation per fiscal year, depending upon length of service. 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 accumulates during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for certified employees is 315 days, and for classified employees it is 300 days. For all employees, retirement severance is paid to each employee retiring from the School District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay is entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 57 days for certified and 55 days for classified employees.

B. Insurance

Life insurance is offered to employees through Assurant Life Insurance Company. Certified and classified employees are covered for \$40,000 and \$35,000, respectively with payments of \$6.00 and \$5.25 per month, respectively. The superintendent is covered for \$50,000 with payments of \$7.50 per month.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

C. Health Insurance Benefits

The School District provides employee medical and surgical insurance, prescription drug, dental, and vision insurance through the Ashtabula County Schools Council of Governments.

Note 15 - Long-Term Obligations

Original issue amounts and interest rates of the School District's debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
2001 Classroom Facilities Improvement Bonds:			
Capital Interest Serial Bonds	4.10% to 5.10%	\$6,390,000	2020
Capital Appreciation Bonds	4.65% to 4.70%	190,895	2010
Current Issue Term Bonds	5.125%	1,340,000	2023

Changes in long-term obligations of the School District during fiscal year 2008 were as follows:

	Principal Outstanding 6/30/07	Additions	Deductions	Principal Outstanding 6/30/08	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
Classroom Facilities Bonds					
Serial Bonds	\$3,785,000	\$0	\$240,000	\$3,545,000	\$255,000
Capital Appreciation Bonds	190,895	0	0	190,895	0
Accretion	201,059	45,004	0	246,063	0
Term Bonds	1,340,000	0	0	1,340,000	0
<i>Total General Obligation Bonds</i>	5,516,954	45,004	240,000	5,321,958	255,000
Other Long Term Obligations					
Compensated Absences	1,219,805	25,591	129,916	1,115,480	161,082
<i>Total General Long-Term Obligations</i>	\$6,736,759	\$70,595	\$369,916	\$6,437,438	\$416,082

Compensated absences will be paid from the general fund and the food service, educational management information systems, title VI-B, title I, classroom reduction and miscellaneous federal grants special revenue funds.

On December 15, 2000, the School District issued \$6,590,895 in voted general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$5,060,000, \$1,340,000 and \$190,895, respectively. The general obligation bonds were issued for the purpose of building new schools within the Conneaut Area City Schools system. The bonds were issued for a twenty-one year period with final maturity at December 1, 2023. The bonds will be retired from the debt service fund.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

The serial, capital appreciation and current issue term bonds remained outstanding at June 30, 2008. The capital appreciation bonds were originally sold at a discount of \$339,105, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010 through 2011.

The maturity amount of outstanding capital appreciation bonds at June 30, 2008 is \$530,000. The accretion recorded for 2008 was \$45,004, for a total outstanding bond liability of \$436,958 at June 30, 2008.

The term bonds maturing on December 1, 2023 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2021	\$425,000
2022	445,000
Total	\$870,000

The remaining principal amount of the term bonds (\$470,000) will mature at the stated maturity on December 1, 2023.

The School District's overall debt margin was \$12,512,725 with an unvoted debt margin of \$179,043 at June 30, 2008. Principal and interest requirements to retire the general obligation bonds follow:

	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$255,000	\$166,235	\$0	\$0	\$0	\$68,675
2010	0	160,625	100,631	164,369	0	68,675
2011	0	160,625	90,264	174,736	0	68,675
2012	265,000	154,596	0	0	0	68,675
2013	275,000	142,174	0	0	0	68,675
2014-2018	1,595,000	494,194	0	0	0	343,375
2019-2023	1,155,000	89,927	0	0	870,000	299,300
2024	0	0	0	0	470,000	12,044
Total	\$3,545,000	\$1,368,376	\$190,895	\$339,105	\$1,340,000	\$998,094

Note 16 - Jointly Governed Organizations

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 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, 6000 Youngstown-Warren Rd., Niles, Ohio, 44446.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Ashtabula County Joint Vocational School District – The Ashtabula County Joint Vocational School District (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the participating School Districts' elected boards. The degree of control exercised by the Vocational School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from Mary Ann Wayman, Treasurer at the Ashtabula County Joint Vocational School District, 1565 State Route 167, Jefferson, Ohio 44047.

Northeast Ohio Management Information Network (NEOMIN) – The North East Ohio Management Information Network (NEOMIN) is a jointly governed organization among 30 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 Service Centers. Each of the districts supports NEOMIN based upon a per pupil charge. The School District paid \$35,565 to NEOMIN during fiscal year 2008.

The Governing Board consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The degree of control exercised by a participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown-Warren Rd., Niles, Ohio 44446.

Northeast Ohio Special Education Regional Resource Center (NEO/SERRC) – NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate each year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Youngstown, Ohio, 44512.

Note 17 - Contingencies

A. Grants

The School District receives 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 School District at June 30, 2008.

B. Litigation

As of June 30, 2008, the School District was not party to any legal proceedings.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Note 18 – Public Entity Risk Pools

The School District has contracted with the Ashtabula County Schools Council of Governments (“the Council”) to provide employee medical/surgical, prescription drug, dental and vision benefits. The Council is organized under Chapter 167 of the Ohio Revised Code and is comprised of seven Ashtabula County school districts. Rates are set by the Council’s board of directors. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The Council is a separate and independent entity governed by its own set of by-laws and constitution. All assets and liabilities are the responsibility of the Council. The program is operated as a full indemnity program with no financial liability (other than monthly premiums) or risk to the School District. The Council shall pay the run out of all claims for a withdrawing Member. Any Member which withdraws from the Council pursuant to the Council Agreement shall have no claim to the Council’s assets.

Note 19 - Set-Aside Calculations

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set -aside Cash Balance as of June 30, 2007	\$462,097	\$0
Current Year Set-aside Requirement	364,677	364,677
Current Year Offsets	0	(197,478)
Qualifying Expenditures	<u>(249,541)</u>	<u>(340,680)</u>
Totals	<u>\$577,233</u>	<u>(\$173,481)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$577,233</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2008	<u>\$577,233</u>	<u>\$0</u>

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the two set-asides at the end of the fiscal year was \$577,233.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
Passed through State Department of Education						
Fresh Fruit and Vegetable Program	10.582	Not Available	\$ 42,419	\$ 0	\$ 43,375	\$ 0
<i>Total Fresh Fruit and Vegetable Program</i>			<u>42,419</u>	<u>0</u>	<u>43,375</u>	<u>0</u>
Food Distribution Program	10.550	Not Available	0	122,432	0	122,432
<i>Total Food Distribution Program</i>			<u>0</u>	<u>122,432</u>	<u>0</u>	<u>122,432</u>
<i>Child Nutrition Cluster</i>						
School Breakfast Program	10.553	05-PU-06	112,253	0	112,253	0
National School Lunch Program	10.555	LL-P4-06	461,375	0	461,375	0
<i>Total Child Nutrition Cluster</i>			<u>573,628</u>	<u>0</u>	<u>573,628</u>	<u>0</u>
Total U.S. Department of Agriculture			<u>616,047</u>	<u>122,432</u>	<u>617,003</u>	<u>122,432</u>
U.S. Department of Education						
Passed through State Department of Education						
Improving Basis Programs Operated by Local Education Agencies - Title I,						
Part A	84.010	C1-S1-06 C1S1-07	92,072	0	92,072	0
<i>Total Title I School Subsidy</i>			<u>702,685</u>	<u>0</u>	<u>700,568</u>	<u>0</u>
<i>Total Title I School Subsidy</i>			<u>794,757</u>	<u>0</u>	<u>792,640</u>	<u>0</u>
<i>Special Education Cluster:</i>						
SE-IDEA Part B	84.027	6B-SF-06-P	101,743	0	101,743	0
SE-IDEA Part B	84.027	6B-SF-07-P	552,766	0	545,070	0
Subtotal IDES, Part B			<u>654,509</u>	<u>0</u>	<u>646,813</u>	<u>0</u>
Early Childhood SE IDEA	84.173	PG-S1-06-P PG-S1-07-P	8,291	0	8,291	0
Subtotal Early Childhood Spec. Education, IDEA			<u>23,193</u>	<u>0</u>	<u>22,019</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>31,484</u>	<u>0</u>	<u>30,310</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>685,993</u>	<u>0</u>	<u>677,123</u>	<u>0</u>
Title IV-A Safe/Drug Free	84.186A	DR-S1-06 DR-S1-07	4,582	0	4,582	0
<i>Total Safe/Drug Free</i>			<u>9,531</u>	<u>0</u>	<u>7,031</u>	<u>0</u>
<i>Total Safe/Drug Free</i>			<u>14,113</u>	<u>0</u>	<u>11,613</u>	<u>0</u>
Innovative Programs: Title V	84.298	C2-S1-06 C2-S1-07	3,005	0	3,005	0
<i>Total Innovative Programs</i>			<u>894</u>	<u>0</u>	<u>894</u>	<u>0</u>
<i>Total Innovative Programs</i>			<u>3,899</u>	<u>0</u>	<u>3,899</u>	<u>0</u>
Enhancing Education Through Technology Title II-D	84.318	TJ-S1-06	5,415	0	4,144	0
<i>Total Technology, Title II-D</i>			<u>5,415</u>	<u>0</u>	<u>4,144</u>	<u>0</u>
Comprehensive School Reform Program	84.332	RF-CC-06	51,840	0	51,840	0
<i>Total Comprehensive School Reform</i>			<u>51,840</u>	<u>0</u>	<u>51,840</u>	<u>0</u>
Reading First	84.357	RS-S1-06 RS-S1-07	104,659	0	104,689	0
<i>Total Reading First</i>			<u>62,240</u>	<u>0</u>	<u>67,916</u>	<u>0</u>
<i>Total Reading First</i>			<u>166,899</u>	<u>0</u>	<u>172,605</u>	<u>0</u>

(Continued)

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Education (Continued)						
Passed through State Department of Education						
Improving Teacher Quality State Grant:						
Title II-A	84.367	TR-S1-06	23,724	0	23,724	0
		TR-S1-07	<u>164,723</u>	<u>0</u>	<u>162,186</u>	<u>0</u>
<i>Total Title II-A, Improving Teacher Quality State Grant</i>			<u>188,447</u>	<u>0</u>	<u>185,910</u>	<u>0</u>
Total U.S. Department of Education			<u>1,911,363</u>	<u>0</u>	<u>1,899,774</u>	<u>0</u>
U.S. Department of Health and Human Services						
Passed through State Department of Health and Human Services:						
Medical Assistant Program:						
Title XIX	93.778	Not Available	<u>122,421</u>	<u>0</u>	<u>122,421</u>	<u>0</u>
Total U.S. Department of Health and Human Services			<u>122,421</u>	<u>0</u>	<u>122,421</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,649,831</u>	<u>\$ 122,432</u>	<u>\$2,639,198</u>	<u>\$ 122,432</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards - Cash

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: CHILD NUTRITION CLUSTER

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

NOTE 3: FOOD DONATION PROGRAM

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

NOTE 4: 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.

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Conneaut Area City School District
Conneaut, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Conneaut Area City School District, Ohio, as of and for the year ended June 30, 2008, which collectively comprise the Conneaut Area City School District, Ohio's basic financial statements and have issued our report thereon dated November 17, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conneaut Area City School District, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conneaut Area City School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Conneaut Area City School District, Ohio's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Conneaut Area City School District, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Conneaut Area City School District, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the Conneaut Area City School District, Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Conneaut Area City School District, Ohio's internal control.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conneaut Area City School District, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Conneaut Area City School District, Ohio, in a separate letter dated November 17, 2008.

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


James G. Zupka, CPA, Inc.
Certified Public Accountants

November 17, 2008

JAMES G. ZUPKA, C.P.A., INC.

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

Board of Education
Conneaut Area City School District
Conneaut, Ohio

Compliance

We have audited the compliance of Conneaut Area City School District, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The Conneaut Area City School District, Ohio's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Conneaut Area City School District, Ohio's management. Our responsibility is to express an opinion on the Conneaut Area City School District, Ohio'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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Conneaut Area City School District, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Conneaut Area City School District, Ohio's compliance with those requirements.

In our opinion, the Conneaut Area City School District, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

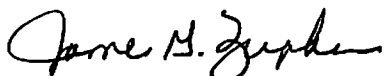
The management of the Conneaut Area City School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Conneaut Area City School District, Ohio'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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Conneaut Area City School District, Ohio's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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


James G. Zupka, CPA, Inc.
Certified Public Accountants

November 17, 2008

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

2008 (i)	Type of Financial Statement Opinion	Unqualified
2008(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2008(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2008(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2008(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2008(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2008(v)	Type of Major Program's Compliance Opinion	Unqualified
2008(vi)	Are there any reportable findings under .510?	No
2008(vii)	Major Programs (list): Food Distribution Program Special Education Cluster	CFDA#10.550, CFDA#84.027 & 84.173
2008(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2008(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

**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
DECEMBER 31, 2008**