



Dave Yost • Auditor of State

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Conneaut Area City School District
Ashtabula County
400 Mill Street, Suite B
Conneaut, Ohio 44030

To The Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

As further described in Note 3 to the basic financial statements, the District restated its July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54.

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 Conneaut Area City School District, Ashtabula County, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof, and the budgetary comparison for the General Fund 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 April 11, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

April 11, 2012

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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, 2011. 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 2011 are as follows:

- The School District issued bonds twice during the fiscal year. The first issuance was to refund an older bond issuance, in order to take advantage of lower interest rates. The second was to provide funding for energy conservation improvements.
- The project to replace bleachers at the stadium was completed. A new project began, as energy conservation improvements are being done at School District buildings.
- The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of 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 education jobs special revenue fund are the more significant funds.

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 2011?" 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.

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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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 8. 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 education jobs special revenue fund, and the bond retirement debt service 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.

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 2011 compared to 2010:

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

(Table 1)
 Net Assets
 Governmental Activities

	2011	2010	Change
Assets			
Current and Other Assets	\$14,703,359	\$13,023,427	\$1,679,932
Capital Assets	38,835,985	38,500,302	335,683
<i>Total Assets</i>	<u>53,539,344</u>	<u>51,523,729</u>	<u>2,015,615</u>
Liabilities			
Current Liabilities	4,527,731	4,587,455	(59,724)
Long-Term Liabilities			
Due within One Year	485,000	305,940	179,060
Due in More than One Year	7,013,754	5,541,268	1,472,486
<i>Total Liabilities</i>	<u>12,026,485</u>	<u>10,434,663</u>	<u>1,591,822</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	32,556,031	33,780,038	(1,224,007)
Restricted for:			
Capital Projects	2,094,682	2,326,369	(231,687)
Debt Service	1,741,919	1,516,628	225,291
Set Asides	799,810	649,536	150,274
Other Purposes	1,552,691	611,275	941,416
Unrestricted	2,767,726	2,205,220	562,506
<i>Total Net Assets</i>	<u>\$41,512,859</u>	<u>\$41,089,066</u>	<u>\$423,793</u>

The overall increase in net assets is mainly due to an increase in current and capital assets. The increase in current assets is due to increased cash and receivables. The increase in capital assets is due to several projects, including bleachers at the stadium and energy conservation improvements. Long-term liabilities also increased as debt was issued to pay for the improvements.

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 2011 and 2010.

(Table 2)
 Change in Net Assets
 Governmental Activities

	2011	2010	Change
Revenues			
<i>Program Revenues</i>			
Charges for Services and Sales	\$416,448	\$404,908	\$11,540
Operating Grants and Contributions	5,078,035	4,189,077	888,958
Capital Grants	0	71,683	(71,683)
<i>Total Program Revenues</i>	<u>\$5,494,483</u>	<u>\$4,665,668</u>	<u>\$828,815</u>

Conneaut Area City School District
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(Table 2)
Change in Net Assets (continued)
Governmental Activities

	2011	2010	Change
General Revenues			
Property Taxes	\$4,399,492	\$4,440,539	(\$41,047)
Grants and Entitlements not Restricted	12,702,132	12,618,331	83,801
Investment Earnings	11,233	10,242	991
Miscellaneous	135,672	55,630	80,042
<i>Total General Revenues</i>	<u>17,248,529</u>	<u>17,124,742</u>	<u>123,787</u>
<i>Total Revenues</i>	<u>22,743,012</u>	<u>21,790,410</u>	<u>952,602</u>
Program Expenses			
Current:			
Instruction:			
Regular	9,620,059	11,675,959	2,055,900
Special	2,166,855	2,288,025	121,170
Vocational	115,728	87,704	(28,024)
Student Intervention Services	1,256,853	0	(1,256,853)
Support Services:			
Pupils	1,330,775	1,191,940	(138,835)
Instructional Staff	1,473,489	1,718,793	245,304
Board of Education	30,906	30,618	(288)
Administration	1,807,127	1,871,325	64,198
Fiscal	410,450	445,663	35,213
Operation and Maintenance of Plant	1,878,651	1,954,118	75,467
Pupil Transportation	808,510	920,404	111,894
Central	62,324	79,971	17,647
Extracurricular Activities	368,469	375,252	6,783
Operation of Non-Instructional Services:			
Food Service Operations	790,823	770,127	(20,696)
Interest and Fiscal Charges	198,200	272,915	74,715
<i>Total Program Expenses</i>	<u>22,319,219</u>	<u>23,682,814</u>	<u>1,363,595</u>
<i>Increase (Decrease) in Net Assets</i>	423,793	(1,892,404)	2,316,197
Net Assets Beginning of Year	<u>41,089,066</u>	<u>42,981,470</u>	<u>(1,892,404)</u>
<i>Net Assets End of Year</i>	<u>\$41,512,859</u>	<u>\$41,089,066</u>	<u>\$423,793</u>

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

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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 19.34 percent of revenues for governmental activities for Conneaut Area City School District in fiscal year 2011 versus 20.38 percent in fiscal year 2010 and 21.23 percent in fiscal year 2009. Calendar year 2008 was a reappraisal year for the School District and historically the School District could count on a 20 percent increase in assessed valuations. Due to the current housing market only a 3.6 percent increase in assessed valuations was realized with this reappraisal. Calendar year 2011 is an update year, so assessed values will be reevaluated once again. 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.

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.

Most areas of expenditure decreased, as the School District made an effort to control costs. Student intervention services was a new category used in fiscal year 2012, previously most of those costs were in the regular instruction line item. The large change in both those areas is attributed to this.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2011 compared to 2010.

(Table 3)
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Instruction	\$13,159,495	\$9,920,611	\$14,051,688	\$10,948,522
Support Services:				
Pupils and Instructional Staff	2,804,264	1,487,223	2,910,733	2,345,101
Board of Education, Administration, and Fiscal	2,248,483	2,248,483	2,347,606	2,347,606
Operation and Maintenance of Plant	1,878,651	1,799,367	1,954,118	1,787,722
Pupil Transportation	808,510	808,510	920,404	917,453
Central	62,324	57,324	79,971	74,971
Extracurricular Activities	368,469	294,192	375,252	304,586
Operation of Non- Instructional Services:				
Food Service Operations	790,823	10,826	770,127	18,270
Interest and Fiscal Charges	198,200	198,200	272,915	272,915
Total Expenses	\$22,319,219	\$16,824,736	\$23,682,814	\$19,017,146

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,610,949 and expenditures of \$22,957,927. The general fund had an increase in fund balance mainly due to personnel reductions. The education jobs fund had a deficit fund balance due to accrued liabilities, which will be offset when grant money is received in fiscal year 2012.

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 2011, the School District amended its general fund budget numerous times to allow for insignificant amendments. Actual revenues received were in line with the final certification. The final certification was slightly higher than the original budgeted revenues, due to higher estimates in all revenue areas as the fiscal year progressed. Actual expenditures were \$628,298 less than appropriations due mainly to the diligence of management to keep costs low while still providing the services the School District citizens expect.

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

Table 4 shows fiscal year 2011 balances compared to fiscal year 2010:

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

	2011	2010	Change
Land and Construction in Progress	\$2,576,361	\$1,108,688	\$1,467,673
Land Improvements	1,423,974	1,036,362	387,612
Buildings and Improvements	33,177,509	34,492,368	(1,314,859)
Furniture and Fixtures	1,301,248	1,376,687	(75,439)
Vehicles	343,055	444,685	(101,630)
Textbooks	13,838	41,512	(27,674)
	\$38,835,985	\$38,500,302	\$335,683

Conneaut Area City School District
Management's Discussion and Analysis
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For fiscal year 2011, capital assets increased. This increase was due to completion of the project to replace the south side bleachers with new stadium seating and a press box, as well as construction in progress related to energy conservation improvements. These additions were partially offset by annual depreciation. 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 2011, this amounted to \$282,878 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

Table 5 summarizes the debt outstanding:

(Table 5)
 Outstanding Long-Term Obligations
 Governmental Activities

	2011	2010	Change
Classroom Facilities Improvement Bonds			
Current Interest Serial Bonds	\$0	\$3,290,000	(\$3,290,000)
Capital Appreciation Bonds	0	90,264	(90,264)
Accretion on Capital			
Appreciation Bonds	0	174,736	(174,736)
Current Issue Term Bonds	0	1,340,000	(1,340,000)
Classroom Facilities Improvement Refunding Bonds			
Current Interest Serial Bonds	4,505,000	0	4,505,000
Capital Appreciation Bonds	94,999	0	94,999
Accretion on Capital			
Appreciation Bonds	25,086	0	25,086
Energy Conservation Term Bonds	1,712,161	0	1,712,161
<i>Totals</i>	<u>\$6,337,246</u>	<u>\$4,895,000</u>	<u>\$1,452,616</u>

The Classroom Facilities Improvement general obligation bonds were retired by the issuance of Classroom Facilities Improvement Refunding bonds during fiscal year 2011. The School District also issued Energy Conservation Bonds during fiscal year 2011.

The School District's overall legal debt margin was \$12,432,523 with an unvoted debt margin of \$189,729.

Additional information concerning debt issuances can be found in Note 16 to the basic financial statements.

Conneaut Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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 a 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 operations is seen as the newest challenge for the School District the last couple fiscal years. Another example is seen in low interest rates being very good for issuing debt, but not attractive for maintaining investment revenues. This is evident from the very small amount of interest revenue during fiscal year 2011. 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.

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, Lindsey Cotton, Treasurer at Conneaut Area City School District, 400 Mill Street, Suite B, Conneaut, Ohio 44030 or email at lcotton@cacsk12.org.

Conneaut Area City School District

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,054,262
Accounts Receivable	12,948
Intergovernmental Receivable	1,197,023
Inventory Held for Resale	19,796
Materials and Supplies Inventory	48,066
Taxes Receivable	4,241,454
Deferred Charges	129,810
Nondepreciable Capital Assets	2,576,361
Depreciable Capital Assets, Net	<u>36,259,624</u>
 <i>Total Assets</i>	 <u>53,539,344</u>
Liabilities	
Accounts Payable	134,245
Accrued Wages	1,772,790
Contracts Payable	417,145
Intergovernmental Payable	430,935
Matured Compensated Absences Payable	55,511
Accrued Interest Payable	11,269
Deferred Revenue	1,705,836
Long-Term Liabilities:	
Due Within One Year	485,000
Due in More Than One Year	<u>7,013,754</u>
 <i>Total Liabilities</i>	 <u>12,026,485</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	32,556,031
Restricted for:	
Capital Projects	2,094,682
Debt Service	1,741,919
Set Asides	799,810
Other Purposes	1,552,691
Unrestricted	<u>2,767,726</u>
 <i>Total Net Assets</i>	 <u><u>\$41,512,859</u></u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net Revenue/(Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$9,620,059	\$162,559	\$1,957,724	(\$7,499,776)
Special	2,166,855	0	1,118,601	(1,048,254)
Vocational	115,728	0	0	(115,728)
Student Intervention Services	1,256,853	0	0	(1,256,853)
Support Services:				
Pupils	1,330,775	0	877,961	(452,814)
Instructional Staff	1,473,489	0	439,080	(1,034,409)
Board of Education	30,906	0	0	(30,906)
Administration	1,807,127	0	0	(1,807,127)
Fiscal	410,450	0	0	(410,450)
Operation and Maintenance				
of Plant	1,878,651	0	79,284	(1,799,367)
Pupil Transportation	808,510	0	0	(808,510)
Central	62,324	0	5,000	(57,324)
Extracurricular Activities	368,469	68,207	6,070	(294,192)
Operation of Non-Instructional Services:				
Food Service Operations	790,823	185,682	594,315	(10,826)
Interest and Fiscal Charges	198,200	0	0	(198,200)
<i>Totals</i>	<u>\$22,319,219</u>	<u>\$416,448</u>	<u>\$5,078,035</u>	<u>(16,824,736)</u>

General Revenues

Property Taxes Levied for:

General Purposes	3,611,629
Debt Service	532,678
Capital Outlay	191,794
Classroom Facilities Maintenance	63,391

Grants and Entitlements not Restricted

to Specific Programs	12,702,132
Investment Earnings	11,233
Miscellaneous	135,672

Total General Revenues 17,248,529

Change in Net Assets 423,793

Net Assets Beginning of Year 41,089,066

Net Assets End of Year \$41,512,859

See accompanying notes to the basic financial statements

Conneaut Area City School District

Balance Sheet

Governmental Funds

June 30, 2011

	General	Education Jobs	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,672,577	\$0	\$1,444,318	\$3,127,191	\$8,244,086
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	799,810	0	0	10,366	810,176
Receivables:					
Taxes	3,469,121	0	517,834	254,499	4,241,454
Accounts	9,893	0	0	3,055	12,948
Intergovernmental	0	633,392	0	563,631	1,197,023
Interfund Receivable	43,879	0	0	0	43,879
Inventory Held for Resale	0	0	0	19,796	19,796
Materials and Supplies Inventory	46,487	0	0	1,579	48,066
<i>Total Assets</i>	<u>\$8,041,767</u>	<u>\$633,392</u>	<u>\$1,962,152</u>	<u>\$3,980,117</u>	<u>\$14,617,428</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$112,654	\$0	\$0	\$21,591	\$134,245
Accrued Wages	1,536,389	76,997	0	159,404	1,772,790
Contracts Payable	0	0	0	417,145	417,145
Intergovernmental Payable	365,718	11,394	0	53,823	430,935
Interfund Payable	0	0	0	43,879	43,879
Deferred Revenue	1,946,478	633,392	293,123	710,260	3,583,253
Matured Compensated Absences Payable	55,511	0	0	0	55,511
<i>Total Liabilities</i>	<u>4,016,750</u>	<u>721,783</u>	<u>293,123</u>	<u>1,406,102</u>	<u>6,437,758</u>
Fund Balances:					
Nonspendable	46,487	0	0	21,375	67,862
Restricted	799,810	0	1,669,029	2,749,954	5,218,793
Assigned	2,502,952	0	0	0	2,502,952
Unassigned (Deficit)	675,768	(88,391)	0	(197,314)	390,063
<i>Total Fund Balances (Deficit)</i>	<u>4,025,017</u>	<u>(88,391)</u>	<u>1,669,029</u>	<u>2,574,015</u>	<u>8,179,670</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,041,767</u>	<u>\$633,392</u>	<u>\$1,962,152</u>	<u>\$3,980,117</u>	<u>\$14,617,428</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2011*

Total Governmental Funds Balances	\$8,179,670
 <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.	38,835,985
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	681,077
Grants	<u>1,196,340</u>
Total	1,877,417
Unamortized issuance costs represent deferred charges which do not provide current financial resources, and therefore, are not reported in the funds.	129,810
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(11,269)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(6,434,850)
Compensated Absences	<u>(1,063,904)</u>
Total	<u>(7,498,754)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$41,512,859</u></u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Education Jobs	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$3,574,204	\$0	\$527,449	\$252,475	\$4,354,128
Intergovernmental	12,471,850	0	103,798	4,021,435	16,597,083
Interest	7,869	0	400	2,964	11,233
Charges for Services	1,413	0	0	185,682	187,095
Tuition and Fees	161,399	0	0	0	161,399
Extracurricular Activities	0	0	0	67,178	67,178
Rentals	776	0	0	0	776
Contributions and Donations	4,965	0	0	91,420	96,385
Miscellaneous	124,563	0	0	11,109	135,672
<i>Total Revenues</i>	<u>16,347,039</u>	<u>0</u>	<u>631,647</u>	<u>4,632,263</u>	<u>21,610,949</u>
Expenditures					
Current:					
Instruction:					
Regular	6,773,971	88,391	0	963,651	7,826,013
Special	1,584,953	0	0	589,227	2,174,180
Vocational	110,938	0	0	0	110,938
Student Intervention Services	1,235,445	0	0	21,262	1,256,707
Support Services:					
Pupils	777,207	0	0	541,393	1,318,600
Instructional Staff	711,058	0	0	726,861	1,437,919
Board of Education	30,906	0	0	0	30,906
Administration	1,450,215	0	0	373,748	1,823,963
Fiscal	392,956	0	11,639	5,580	410,175
Operation and Maintenance of Plant	1,706,129	0	0	179,807	1,885,936
Pupil Transportation	714,133	0	0	736	714,869
Central	44,156	0	0	15,686	59,842
Extracurricular Activities	286,339	0	0	78,807	365,146
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	755,408	755,408
Capital Outlay	0	0	0	2,174,404	2,174,404
Debt Service:					
Principal Retirement	0	0	120,264	0	120,264
Interest and Fiscal Charges	66,132	0	112,785	0	178,917
Issuance Costs	0	0	104,761	34,243	139,004
Capital Appreciation Bonds Interest	0	0	174,736	0	174,736
<i>Total Expenditures</i>	<u>15,884,538</u>	<u>88,391</u>	<u>524,185</u>	<u>6,460,813</u>	<u>22,957,927</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>462,501</u>	<u>(88,391)</u>	<u>107,462</u>	<u>(1,828,550)</u>	<u>(1,346,978)</u>
Other Financing Sources (Uses)					
General Obligation Bonds Issued	0	0	4,629,999	1,712,161	6,342,160
Premium on General Obligation Bonds Issued	0	0	216,279	0	216,279
Payment to Refunded Bond Escrow Agent	0	0	(4,741,517)	0	(4,741,517)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>104,761</u>	<u>1,712,161</u>	<u>1,816,922</u>
<i>Net Change in Fund Balances</i>	462,501	(88,391)	212,223	(116,389)	469,944
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,562,516</u>	<u>0</u>	<u>1,456,806</u>	<u>2,690,404</u>	<u>7,709,726</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$4,025,017</u>	<u>(\$88,391)</u>	<u>\$1,669,029</u>	<u>\$2,574,015</u>	<u>\$8,179,670</u>

See accompanying notes to the basic financial statements

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, 2011*

Net Change in Fund Balances -Total Governmental Funds	\$469,944
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*Amounts reported for governmental activities in the
statement of activities are different because:*

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

Capital Outlay	2,019,317	
Current Year Depreciation	(1,683,634)	
Total		335,683

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

Property Taxes	45,364	
Grants	1,086,699	
Total		1,132,063

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued. 139,004

Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.

General Obligation Bonds Issued	(6,342,160)	
Premium on General Obligation Bonds Issued	(216,279)	
Total		(6,558,439)

Repayment of bond principal and accreted interest on bonds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 5,036,517

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	7,839	
Annual Accretion	(25,086)	
Amortization of Bond Premium	14,777	
Amortization of Bond Issuance Costs	(9,194)	
Amortization of Loss on Refunding	(7,619)	
Total		(19,283)

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. (111,696)

Change in Net Assets of Governmental Activities \$423,793

See accompanying notes to the basic financial statements

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, 2011

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$3,537,882	\$3,565,493	\$3,565,493	\$0
Intergovernmental	12,453,450	12,529,375	12,529,375	0
Interest	6,800	8,000	7,869	(131)
Charges for Services	0	2,486	2,486	0
Tuition and Fees	146,000	160,575	160,575	0
Rentals	0	738	738	0
Contributions and Donations	0	4,965	4,965	0
Miscellaneous	35,000	117,012	117,012	0
<i>Total Revenues</i>	<u>16,179,132</u>	<u>16,388,644</u>	<u>16,388,513</u>	<u>(131)</u>
Expenditures				
Current:				
Instruction:				
Regular	7,320,719	6,858,220	6,712,642	145,578
Special	1,606,740	1,573,646	1,527,067	46,579
Vocational	92,762	107,005	100,623	6,382
Student Intervention Services	1,168,992	1,247,601	1,238,713	8,888
Support Services:				
Pupils	548,975	779,382	769,517	9,865
Instructional Staff	745,859	762,819	732,711	30,108
Board of Education	34,640	34,685	30,780	3,905
Administration	1,499,646	1,586,652	1,425,454	161,198
Fiscal	415,387	436,906	414,608	22,298
Operation and Maintenance of Plant	1,896,047	1,978,806	1,899,639	79,167
Pupil Transportation	782,770	777,521	735,003	42,518
Central	58,036	55,616	43,838	11,778
Extracurricular Activities	281,873	319,779	259,745	60,034
Debt Service:				
Interest and Fiscal Charges	0	66,132	66,132	0
<i>Total Expenditures</i>	<u>16,452,446</u>	<u>16,584,770</u>	<u>15,956,472</u>	<u>628,298</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(273,314)</u>	<u>(196,126)</u>	<u>432,041</u>	<u>628,167</u>
Other Financing Sources (Uses)				
Advances In	0	0	144,973	144,973
Advances Out	0	0	(43,879)	(43,879)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>101,094</u>	<u>101,094</u>
<i>Net Change in Fund Balance</i>	(273,314)	(196,126)	533,135	729,261
<i>Fund Balance Beginning of Year</i>	3,557,842	3,557,842	3,557,842	0
Prior Year Encumbrances Appropriated	100,991	100,991	100,991	0
<i>Fund Balance End of Year</i>	<u>\$3,385,519</u>	<u>\$3,462,707</u>	<u>\$4,191,968</u>	<u>\$729,261</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$82,272	\$26,512
Liabilities		
Due to Students	0	\$26,512
Net Assets		
Held in Trust for Scholarships	\$82,272	

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2011

	<u>Scholarship</u>
Additions	
Gifts and Contributions	\$82,266
Interest	<u>6</u>
<i>Total Additions</i>	82,272
Deductions	<u>0</u>
<i>Change in Net Assets</i>	82,272
Net Assets Beginning of Year	<u>0</u>
Net Assets End of Year	<u><u>\$82,272</u></u>

See accompanying notes to the basic financial statements

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Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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 92 non-certified employees and 149 certified full-time teaching and administrative personnel who provide services to 2,090 students and other community members. The School District currently operates four 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 two jointly governed organizations and a risk sharing pool. These organizations are the Ashtabula County Joint Vocational School District, the Northeast Ohio Management Information Network and the Ashtabula County Schools Council of Governments, which are presented in Notes 17 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, 2011*

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 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.

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 and report all financial resources except those required to be accounted for or reported 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, 2011*

Education Jobs Fund The education jobs fund accounts for restricted Federal grant monies to assist schools in providing educational and related services for early childhood, elementary, and secondary education. This fund did not have any budgetary activity in fiscal year 2011, therefore, budgetary information is not provided.

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

The other governmental funds of the School District account for grants and other resources whose uses are restricted, committed, or assigned 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 one private trust fund. 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.

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.

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, 2011*

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, 2011, but which were levied to finance fiscal year 2012 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.

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The education jobs special revenue fund was not budgeted since no activity was anticipated and none occurred. 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, 2011*

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.

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 2011, investments were limited to a repurchase agreement and STAR Ohio. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2011.

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 2011 amounted to \$7,869, which includes \$2,320 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.

Inventory

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

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 for the purchases of textbooks. See Note 19 for additional information regarding set asides.

Capital Assets

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

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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

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

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.

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, 2011*

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 and compensated absences 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.

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. Net assets restricted for other purposes include food service operations, classroom facilities maintenance, special education 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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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.

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 and Restatement of Fund Balance

Change in Accounting Principles

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District’s financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments and external investment pools. The implementation of this statement did not result in any change in the School District’s financial statements.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Restatement of Fund Balance

The implementation of GASB Statement No. 54 had the following effect on the fund balances of the major and nonmajor funds as they were previously reported:

	General	Education Jobs	Bond Retirement	Nonmajor Governmental Funds	Total
Fund Balance at June 30, 2010	\$3,490,441	\$0	\$1,456,806	\$2,762,479	\$7,709,726
Change in Fund Structure	72,075	0	0	(72,075)	0
Adjusted Fund Balance at June 30, 2010	<u>\$3,562,516</u>	<u>\$0</u>	<u>\$1,456,806</u>	<u>\$2,690,404</u>	<u>\$7,709,726</u>

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Education Jobs	Bond Retirement	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>					
Inventory	\$46,487	\$0	\$0	\$21,375	\$67,862
<i>Restricted for</i>					
Food Service	0	0	0	161,672	161,672
Permanent Improvement	0	0	0	1,011,189	1,011,189
Debt Service	0	0	1,669,029	0	1,669,029
Classroom Facilities	0	0	0	1,216,946	1,216,946
Textbooks	799,810	0	0	0	799,810
Other Purposes	0	0	0	360,147	360,147
<i>Total Restricted</i>	<u>799,810</u>	<u>0</u>	<u>1,669,029</u>	<u>2,749,954</u>	<u>5,218,793</u>
<i>Assigned to</i>					
Capital Improvements	1,275,000	0	0	0	1,275,000
Fiscal Year 2012 Operations	1,176,112	0	0	0	1,176,112
Other Purposes	51,840	0	0	0	51,840
<i>Total Assigned</i>	<u>2,502,952</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,502,952</u>
<i>Unassigned (Deficit)</i>	<u>675,768</u>	<u>(88,391)</u>	<u>0</u>	<u>(197,314)</u>	<u>390,063</u>
<i>Total Fund Balances (Deficit)</i>	<u>\$4,025,017</u>	<u>(\$88,391)</u>	<u>\$1,669,029</u>	<u>\$2,574,015</u>	<u>\$8,179,670</u>

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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 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:

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 restricted, committed, or assigned fund balance (GAAP).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds.

Net Change in Fund Balance

	General	Education Jobs
GAAP Basis	\$462,501	(\$88,391)
Net Adjustment for Revenue Accruals	41,474	0
Advances In	144,973	0
Net Adjustment for Expenditure Accruals	208,485	88,391
Advances Out	(43,879)	0
Encumbrances	(280,419)	0
Budget Basis	<u>\$533,135</u>	<u>\$0</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.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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.

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 (STAR Ohio); 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, \$2,018,911 of the School District's bank balance of \$2,277,911 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.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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.

Investments

As of June 30, 2011, the School District had the following investments.

	<u>Fair Value</u>	<u>Maturity</u>	<u>Standard & Poor's</u>	<u>Percent of Total Investments</u>
STAR Ohio	\$6,959,259	Average 58 Days	AAA	N/A
Repurchase Agreement	<u>179,445</u>	Daily	AAA	2.51%
<i>Totals</i>	<u><u>\$7,138,704</u></u>			

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. STAR Ohio carries a rating of AAA by Standard & Poor’s. Ohio law requires that STAR Ohio 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.

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District’s fiscal year runs from July through June. First half tax 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 year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after

Conneaut Area City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 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-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 year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 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 year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 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 counties by June 30, 2011, are available to finance fiscal year 2011 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, 2011 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, 2011 was \$1,522,643 in the general fund, \$224,711 in the bond retirement debt service fund, \$80,795 in the permanent improvement capital projects fund and \$26,392 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2010 was \$1,513,932 in the general fund, \$223,979 in the bond retirement debt service fund, \$80,438 in the permanent improvement capital projects fund and \$26,813 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, 2011*

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$192,621,980	95.58 %	\$192,755,690	96.72 %
Public Utility Personal	6,293,760	3.12	6,540,640	3.28
Tangible Personal Property	<u>2,623,760</u>	<u>1.30</u>	<u>0</u>	<u>0.00</u>
Total	<u>\$201,539,500</u>	<u>100.00 %</u>	<u>\$199,296,330</u>	<u>100.00 %</u>
Tax Rate per \$1,000 of Assessed Valuation	\$37.63		\$37.63	

Note 8 - Receivables

Receivables at June 30, 2011, 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>
Education Jobs Grant	\$633,392
Title I	261,288
Title VI-B	116,517
Classroom Reduction Grant	63,070
Miscellaneous Federal Grants	42,829
Race to the Top Grant	42,710
Early Childhood Education Grant	22,996
Preschool Disabilities Grant	9,656
Technology IID Grant	2,363
Drug Free Schools Grant	2,123
Lunchroom Reimbursement	<u>79</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$1,197,023</u></u>

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$1,020,916	\$0	\$0	\$1,020,916
Construction in Progress	87,772	1,958,349	(490,676)	1,555,445
<i>Total Capital Assets not being Depreciated</i>	<u>1,108,688</u>	<u>1,958,349</u>	<u>(490,676)</u>	<u>2,576,361</u>
<i>Capital Assets being Depreciated:</i>				
Land Improvements	1,597,956	490,676	0	2,088,632
Buildings and Improvements	45,383,523	0	0	45,383,523
Furniture and Equipment	2,520,879	60,968	(4,904)	2,576,943
Vehicles	1,479,908	0	(65,847)	1,414,061
Textbooks and Library Books	1,107,757	0	0	1,107,757
<i>Total Capital Assets being Depreciated</i>	<u>52,090,023</u>	<u>551,644</u>	<u>(70,751)</u>	<u>52,570,916</u>
Less Accumulated Depreciation:				
Land Improvements	(561,594)	(103,064)	0	(664,658)
Buildings and Improvements	(10,891,155)	(1,314,859)	0	(12,206,014)
Furniture and Equipment	(1,144,192)	(136,407)	4,904	(1,275,695)
Vehicles	(1,035,223)	(101,630)	65,847	(1,071,006)
Textbooks and Library Books	(1,066,245)	(27,674)	0	(1,093,919)
<i>Total Accumulated Depreciation</i>	<u>(14,698,409)</u>	<u>(1,683,634) *</u>	<u>70,751</u>	<u>(16,311,292)</u>
<i>Total Assets being Depreciated, Net</i>	<u>37,391,614</u>	<u>(1,131,990)</u>	<u>0</u>	<u>36,259,624</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$38,500,302</u>	<u>\$826,359</u>	<u>(\$490,676)</u>	<u>\$38,835,985</u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$1,501,012
Special	314
Vocational	4,790
Support Services:	
Pupils	1,308
Instructional Staff	25,215
Administration	1,314
Operation and Maintenance of Plant	21,414
Pupil Transportation	92,032
Central	2,482
Extracurricular Activities	3,323
Operation of Non-Instructional Services:	
Food Service Operations	30,430
Total Depreciation Expense	<u>\$1,683,634</u>

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 10 - Interfund Balances

Interfund balances at June 30, 2011, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$43,879. 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

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 2011, 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)	\$62,179,849
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.

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 \$100 for family and \$39 for single coverage. Classified employees pay monthly premiums of \$14.29 for family and \$5.63 for single for dental benefits.

Worker's Compensation

For fiscal year 2011, 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.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 12 - Pension Plans

School Employee Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$265,541, \$291,506 and \$244,364, respectively. For fiscal year 2011, 62.2 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can 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 multiplied by 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$1,109,178 and \$34,662 for the fiscal year ended June 30, 2011, \$1,033,869 and \$38,892 for the fiscal year ended June 30, 2010, and \$1,046,604 and \$39,371 for the fiscal year ended June 30, 2009. For fiscal year 2011, 82.2 percent has been contributed for the DB plan and 82.2 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2011 were \$1,294 made by the School District and \$925 made by the plan members. In addition, member contributions of \$24,759 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan

Note 13 - Postemployment Benefits

School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 105(e). For fiscal year 2011, 1.43 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 fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$34,553 in surcharge.

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, 2011

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$32,153, \$28,830, and \$103,309, respectively. For fiscal year 2011, 62.2 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$17,088, \$17,390, and \$19,370, respectively. For fiscal year 2011, 62.2 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

State Teachers Retirement System

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$82,655, \$83,160, and \$83,537 respectively. For fiscal year 2011, 82.2 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Note 14 – Other Employee Benefits

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 thirty 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 60 days for certified and classified employees.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Insurance

Life insurance is offered to employees through Assurant Life Insurance Company. Certified and classified employees are covered for \$40,000 with payments of \$6.00 and \$5.25 per month, respectively. The superintendent is covered for \$150,000 with payments of \$7.50 per month.

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 - Contingencies

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, 2011.

Litigation

As of June 30, 2011, the School District was not party to any legal proceedings.

Note 16 - Long-Term Obligations

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

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
2001 Classroom Facilities Improvement Bonds:			
Capital Interest Serial Bonds	4.10% to 5.10%	\$5,060,000	2020
Capital Appreciation Bonds	4.65% to 4.70%	190,895	2010
Current Issue Term Bonds	5.125%	1,340,000	2023
2011 Classroom Facilities Improvement Refunding Bonds:			
Capital Interest Serial Bonds	1.00% to 4.00%	4,535,000	2023
Capital Appreciation Bonds	4.00%	94,999	2016
Energy Conservation Improvement Bonds:			
Current Issue Term Bonds	5.150%	1,712,161	2023

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Changes in long-term obligations of the School District during fiscal year 2011 were as follows:

	Principal Outstanding 6/30/10	Additions	Deductions	Principal Outstanding 6/30/11	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
Classroom Facilities Improvement Bonds					
Serial Bonds	\$3,290,000	\$0	\$3,290,000	\$0	\$0
Capital Appreciation Bonds	90,264	0	90,264	0	0
Accretion	174,736	0	174,736	0	0
Term Bonds	1,340,000	0	1,340,000	0	0
<i>Total Classroom Facilities Improvement Bonds</i>	<u>4,895,000</u>	<u>0</u>	<u>4,895,000</u>	<u>0</u>	<u>0</u>
Classroom Facilities Improvement Refunding Bonds					
Serial Bonds	0	4,535,000	30,000	4,505,000	330,000
Capital Appreciation Bonds	0	94,999	0	94,999	0
Accretion	0	25,086	0	25,086	0
Premium	0	216,279	14,777	201,502	0
Accounting Loss	0	(111,517)	(7,619)	(103,898)	0
<i>Total Classroom Facilities Refunding Bonds</i>	<u>0</u>	<u>4,759,847</u>	<u>37,158</u>	<u>4,722,689</u>	<u>330,000</u>
Energy Conservation Improvement Bonds	0	1,712,161	0	1,712,161	112,161
<i>Total General Obligation Bonds</i>	<u>4,895,000</u>	<u>6,472,008</u>	<u>4,932,158</u>	<u>6,434,850</u>	<u>442,161</u>
Other Long Term Obligations					
Compensated Absences	952,208	154,721	43,025	1,063,904	42,839
<i>Total General Long-Term Obligations</i>	<u>\$5,847,208</u>	<u>\$6,626,729</u>	<u>\$4,975,183</u>	<u>\$7,498,754</u>	<u>\$485,000</u>

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 final payment was made on the capital appreciation bonds in fiscal year 2011. The serial and term bonds were advance refunded in fiscal year 2011.

On July 20, 2010, the School District issued \$4,629,999 in general obligation bonds to refund the classroom facilities improvement bonds in order to take advantage of lower interest rates. The bonds included serial and capital appreciation (deep discount) bonds in the amount of \$4,535,000 and \$94,999, respectively. The bonds were issued for a fourteen year period with a final maturity at December 1, 2023. The final maturity

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

amount of outstanding capital appreciation bonds at June 30, 2011, is \$365,000. The accretion recorded for 2011 was \$25,086, for a total outstanding bond liability of \$120,085. The bonds will be retired from the debt service fund.

The bonds were sold at a premium of \$216,279. Net proceeds of \$4,741,516 were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2011, \$4,630,000 of the defeased bonds are still outstanding.

The School District decreased its total debt service payments by \$491,659 as a result of the advance refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$399,335.

An analysis of the refunding issue follows:

	Classroom Facilities Improvement Bonds
Outstanding at June 30, 2010	\$4,720,264
Amount Refunded	(4,630,000)
Principal Payment	(90,264)
Outstanding Principal at June 30, 2011	<u>\$0</u>

On September 1, 2010, the School District issued \$1,712,161 in Energy Conservation Improvement bonds for the installation, modification, and remodeling of school buildings to conserve energy. The bonds are term bonds, have a final maturity date of December 1, 2025 and will be paid from the debt service fund. These bonds were Qualified School Construction Bonds (QSCBs) in accordance with the American Recovery and Reinvestment Act of 2009 (ARRA). The bonds are Direct Payment QSCBs.

To the extent that the School District fails to expend for federal tax law purposes all of the available project proceeds of the bonds within three years, the bonds shall be subject to extraordinary mandatory redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus any interest accrued to the redemption date, to preserve the Tax Status of the bonds as Direct Payment QSCBs.

The term bonds are subject to mandatory sinking fund redemption requirements on December 1 in the years and in the principal amounts as follows:

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Year	Amount
2011	\$112,161
2012	110,000
2013	110,000
2014	115,000
2015	115,000
2016	115,000
2017	115,000
2018	115,000
2019	115,000
2020	115,000
2021	115,000
2022	115,000
2023	115,000
2024	115,000
Total	<u>\$1,597,161</u>

The remaining principal amount of the term bonds (\$115,000) will mature at the stated maturity on December 1, 2025.

The School District's overall debt margin was \$12,432,523 with an unvoted debt margin of \$189,729 at June 30, 2011. Principal and interest requirements to retire the general obligation bonds follow:

	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$330,000	\$130,428	\$0	\$0	\$112,161	\$85,288
2013	335,000	123,828	0	0	110,000	79,568
2014	340,000	117,128	0	0	110,000	73,903
2015	350,000	110,328	0	0	115,000	68,109
2016	355,000	103,328	0	0	115,000	62,187
2017-2021	1,520,000	410,028	94,999	270,001	575,000	222,095
2022-2026	1,275,000	97,962	0	0	575,000	74,032
Total	<u>\$4,505,000</u>	<u>\$1,093,030</u>	<u>\$94,999</u>	<u>\$270,001</u>	<u>\$1,712,161</u>	<u>\$665,182</u>

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 17 - Jointly Governed Organizations

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 \$35,986 to NEOMIN during fiscal year 2011.

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.

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.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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, 2010	\$649,536	\$0
Current Year Set-aside Requirement	282,878	282,878
Current Year Offsets	0	(295,000)
Qualifying Expenditures	<u>(132,604)</u>	<u>(92,124)</u>
Totals	<u>\$799,810</u>	<u>(\$104,246)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$0</u>
Set-aside Balance as of June 30, 2011	<u>\$799,810</u>	<u>\$0</u>

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This balance is therefore not presented as being carried forward to future fiscal years. 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 balance for the two set-asides at the end of the fiscal year was \$799,810.

Note 20 – Accountability

At June 30, 2011, the following funds had deficit fund balances:

<u>Fund</u>	<u>Fund Balance</u>
<i>Special Revenue Funds</i>	
Early Childhood Education	(\$12,914)
Race to the Top	(14,388)
Title VI-B	(45,542)
Technology Title II-D	(1,270)
Title I	(93,846)
Preschool Disabilities	(2,240)
Class Size Reduction	(19,695)
Miscellaneous Federal Grants	<u>(7,419)</u>
Total	<u>(\$197,314)</u>

The deficits in the special revenue funds are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Conneaut Area City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 21 – Subsequent Event

The School District issued notes on December 9, 2011 in the amount of \$280,000 at 3 percent interest with annual principal payments of \$56,000 through December 2016 to pay off a contract for the construction of stadium bleachers. The District anticipates it will be reimbursed as the payments come due by the Conneaut Area Recreation Endowment (CARE) per a memorandum of Understanding dated March 10, 2010 in which CARE has agreed to raise funds to support various improvements to the School District's athletic field. CARE has donated \$104,409 to the district to date, and as of June 30, 2011 the district held a cash balance of \$10,366 in donated money. The District anticipates the cash balance and future donations will be available to retire the notes and interest.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Grant Year</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	2011	10.555	\$39,880	\$39,880
Cash Assistance				
National School Breakfast Program	2011	10.553	105,985	105,985
National School Lunch Program	2011	10.555	407,956	407,956
Special Milk Program for Children	2011	10.556	762	762
<i>Total Child Nutrition Cluster</i>			<u>554,583</u>	<u>554,583</u>
Total U. S. Department of Agriculture			554,583	554,583
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title 1, Part A Cluster:</i>				
<i>Grants to Local Educational Agencies:</i>				
Title 1 School Subsidy	2011	84.010	687,383	700,946
	2010		126,516	100,642
Title 1 - School Improvement Sub A	2011		6,000	6,000
	2010		161	
Title 1 Literacy Initiative	2011		82,783	86,371
Subtotal - CFDA 84.010			<u>902,843</u>	<u>893,959</u>
<i>Grants to Local Educational Agencies:</i>				
ARRA Title 1 School Subsidy	2011	84.389	62,670	63,595
	2010		18,456	9,201
Subtotal - CFDA 84.389			<u>81,126</u>	<u>72,796</u>
<i>Total Title 1, Part A Cluster</i>			983,969	966,755
<i>Special Education Cluster:</i>				
Special Education Grants to States (IDEA Part B)	2011	84.027	444,183	448,495
	2010		87,267	63,014
Subtotal - CFDA 84.027			<u>531,450</u>	<u>511,509</u>
Early Childhood Special Education	2011	84.173	17,867	18,965
	2010		4,478	3,755
Subtotal - CFDA 84.173			<u>22,345</u>	<u>22,720</u>
ARRA Special Education Grants to States (IDEA, Part B)	2011	84.391	127,290	125,235
	2010		53,003	39,670
Subtotal - CFDA 84.391			<u>180,293</u>	<u>164,905</u>
ARRA Early Childhood Special Education	2011	84.392	14,517	14,517
	2010		172	53
Subtotal - CFDA 84.392			<u>14,689</u>	<u>14,570</u>
<i>Total Special Education Cluster</i>			748,777	713,704

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Safe and Drug Free Schools Grant	2011	84.186	5,112	5,112
	2010		5	5
Subtotal - CFDA 84.186			5,117	5,117
Technology Literacy Challenge Fund Grants - Title II-D	2011	84.318	7,210	7,359
	2010			301
Subtotal - CFDA 84.318			7,210	7,660
Reading First State Grants	2011	84.357	290,319	292,260
	2010		107,448	51,756
Subtotal - CFDA 84.357			397,767	344,016
School Improvement Grant	2010	84.377	54	
Rural and Low Income Program, Title VI Part B (ESEA)	2011	84.358	50,706	8,923
	2010		9,991	50,706
Subtotal - CFDA 84.358			60,697	59,629
Improving Teacher Quality State Grants - Title II, Part A	2011	84.367	181,383	178,676
	2010		26,975	23,830
Subtotal - CFDA 84.367			208,358	202,506
ARRA State Fiscal Stabilization Fund	2011	84.394	948,644	777,470
	2010			142,511
Subtotal - CFDA 84.394			948,644	919,981
ARRA Race to the Top Incentive Grants	2011	84.395	2,943	2,350
Total U. S. Department of Education			3,363,536	3,221,718
Totals			\$3,918,119	\$3,776,301

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

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Conneaut Area City School District's (the District) federal awards programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the entitlement value.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Conneaut Area City School District
Ashtabula County
400 Mill Street, Suite B
Conneaut, Ohio 44030

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 11, 2012 wherein we noted the District implemented Governmental Accounting Standards Board (GASB) Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item number 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 11, 2012.

We intend this report solely for the information and use of management, Board of Education, and federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

April 11, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Conneaut Area City School District
Ashtabula County
400 Mill Street, Suite B
Conneaut, Ohio 44030

To The Board of Education:

Compliance

We have audited the compliance of Conneaut Area City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Conneaut Area City School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Conneaut Area City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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.

We intend this report solely for the information and use of the management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

April 11, 2012

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list): State Fiscal Stabilization Fund ARRA Nutrition Cluster Title II-A Special Education Cluster ARRA	CFDA Number(s) 84.394 10.553, 10.555 and 10.556 84.367 84.027, 84.173, 84.391 and 84.392
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2011-01

Noncompliance and Material Weakness

Ohio Administrative Code Chapter 117-2 provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

“Internal control” means a process effected by an entity’s governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for reliability of financial reporting;

The control over the review of transactions due and payable at June 30, 2011 failed to identify a material transaction of \$380,555 in the calculation of contracts payable in the Permanent Improvement Fund (003). When this was brought to the District’s attention, they corrected the financial statements to include this amount as a contract payable.

We recommend the District improve its control procedure to insure all invoices dated prior to year end are included as payables in the District financial statements.

Officials’ Response

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Conneaut Area City School District
Ashtabula County
400 Mill Street, Suite B
Conneaut, Ohio 44030

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Conneaut Area City School (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 20, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 11, 2012

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Dave Yost • 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
MAY 15, 2012