



**Auditor of State
Betty Montgomery**

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Ashtabula Area City School District
Ashtabula County
401 W. 44th Street
Ashtabula, Ohio 44005-0290

To the Board of Education:

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

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

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

As described in Note 15, during the year ended June 30, 2002, the District began depreciating the assets in the general fixed asset account group and increased the fixed asset capitalization threshold.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

February 14, 2003

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

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals 2002	
	Special	Debt	Capital	Enterprise	Internal	Trust and Agency	General	General	(Memorandum Only)	
	Revenue	Service	Project		Service		Fixed Assets	Long Term		
Assets and Other Debits:										
Equity in Pooled Cash and Investments	\$ 1,055,748	1,823,739	0	2,159,640	54,111	780,894	93,248	0	0	\$ 5,967,380
Cash - Restricted	314,709	0	0	0	0	0	0	0	0	314,709
Investments	0	0	0	0	0	0	8,454	0	0	8,454
Taxes Receivable	9,055,845	0	0	1,861,651	0	0	0	0	0	10,917,496
Interfund Receivables	599,526	0	0	0	0	0	0	0	0	599,526
Intergovernmental Receivables	1,739	964,755	0	9,994	0	0	0	0	0	976,488
Accounts Receivable	13,575	430	0	0	154	365,665	250	0	0	380,074
Supply Inventory	187,929	0	0	0	3,234	0	0	0	0	191,163
Inventory for Resale	0	0	0	0	24,074	0	0	0	0	24,074
Property, Plant & Equipment	0	0	0	0	394,558	0	0	20,618,293	0	21,012,851
Accumulated Depreciation, Where Applicable	0	0	0	0	(164,688)	0	0	(10,608,145)	0	(10,772,833)
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	0	0	0	0	3,221,907	3,221,907
Total Assets and Other Debits	\$ 11,229,071	2,788,924	0	4,031,285	311,443	1,146,559	101,952	10,010,148	3,221,907	\$ 32,841,289

(Continued)

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

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals 2002	
	General	Special Revenue	Debt Service	Capital Project	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long Term	(Memorandum Only)
Liabilities:										
Interfund Payables	\$ 0	198,802	0	9,995	390,729	0	0	0	0	\$ 599,526
Intergovernmental Payables	478,111	78,258	0	21	95,914	0	0	0	243,777	896,081
Accounts Payable	163,411	55,159	0	51,875	56,614	30,148	862	0	0	358,069
Claims Payable	0	0	0	0	0	380,078	0	0	0	380,078
Accrued Salaries and Benefits	2,710,586	551,182	0	0	14,899	0	0	0	0	3,276,667
Deferred Revenue	5,649,281	0	0	842,604	0	0	0	0	0	6,491,885
Capital Leases Payable	0	0	0	0	0	0	0	0	126,732	126,732
Due to Others	0	0	0	0	0	0	52,618	0	0	52,618
Notes Payable	0	0	0	0	0	0	0	0	170,000	170,000
Compensated Absences Payable	335,745	3,112	0	0	14,899	0	0	0	2,583,252	2,937,008
Early Retirement Incentive	0	0	0	0	0	0	0	0	98,146	98,146
Total Liabilities	9,337,134	886,513	0	904,495	573,055	410,226	53,480	0	3,221,907	15,386,810
Fund Equity and Other Credits:										
Investment in General Fixed Assets	0	0	0	0	0	0	0	10,010,148	0	10,010,148
Contributed Capital	0	0	0	0	82,085	0	0	0	0	82,085
Retained Earnings	0	0	0	0	(343,697)	736,333	400	0	0	393,036
Fund Balances:										
Reserved for Budget Stabilization	314,709	0	0	0	0	0	0	0	0	314,709
Reserved for Endowment	0	0	0	0	0	0	8,054	0	0	8,054
Reserved for Supply Inventory	187,929	0	0	0	0	0	0	0	0	187,929
Reserved for Encumbrances	266,791	121,453	0	108,038	0	0	0	0	0	496,282
Reserved for Future Appropriation	3,406,564	0	0	1,019,047	0	0	0	0	0	4,425,611
Unreserved Fund Balance	(2,284,056)	1,780,958	0	1,999,705	0	0	40,018	0	0	1,536,625
Total Fund Balances	1,891,937	1,902,411	0	3,126,790	0	0	48,072	0	0	6,969,210
Total Fund Balances/Retained Earnings and Other	1,891,937	1,902,411	0	3,126,790	(261,612)	736,333	48,472	10,010,148	0	17,139,770
Total Liabilities, Fund Equity, and Other Credits	\$ 11,229,071	2,788,924	0	4,031,285	311,443	1,146,559	101,952	10,010,148	3,221,907	\$ 32,841,289

See Accompanying Notes to the General Purpose Financial Statement

Ashtabula Area City School District
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types			Fiduciary	Totals (Memorandum (Only))	
	General	Special Revenue	Debt Service	Capital Project		Expendable Trust
REVENUES:						
Revenue from Local Sources:						
Taxes	\$ 9,974,422	0	215,665	2,952,276	0	\$ 13,142,363
Tuition	111,846	0	0	0	0	111,846
Transportation Fees	53,649	0	0	0	0	53,649
Earnings on Investments	150,175	218	0	0	37	150,430
Extracurricular Activities	0	167,104	0	0	0	167,104
Classroom Materials & Fees	0	0	0	0	0	0
Miscellaneous	97,297	120,306	0	0	17,284	234,887
Revenue from Intermediates Sources:						
Restricted Grant in Aid	0	15,900	0	0	0	15,900
Revenue from State Sources:						
Unrestricted Grants-in-Aid	17,940,818	190,802	0	354,513	0	18,486,133
Restricted Grants-in-Aid	493,105	2,319,053	0	184,879	0	2,997,037
Revenue for/on Behalf of District	79,521	0	0	0	0	79,521
Revenue from Federal Sources:						
Restricted Grants-in-Aid	0	3,427,186	0	0	0	3,427,186
Total Revenue	28,900,833	6,240,569	215,665	3,491,668	17,321	38,866,056
EXPENDITURES:						
Instruction:						
Regular	14,673,732	2,324,197	0	1,156,117	850	18,154,896
Special	3,656,855	1,556,911	0	0	0	5,213,766
Vocational	241,209	2,211	0	0	0	243,420
Other	80,569	0	0	0	0	80,569
Supporting Services:						
Pupil	1,450,010	372,513	0	0	572	1,823,095
Instructional Staff	406,043	1,198,322	0	8,760	0	1,613,125
Board of Education	113,438	0	0	0	0	113,438
Administration	2,359,397	257,475	0	15,148	0	2,632,020
Fiscal Services	659,129	94,143	0	66,013	412	819,697
Business	372,272	25,043	0	188	0	397,503
Operation and Maintenance of Plant	3,023,239	38,192	0	0	0	3,061,431
Pupil Transportation	1,232,314	5,849	0	22,847	0	1,261,010
Central	10,486	92,426	0	0	0	102,912

(Continued)

Ashtabula Area City School District
Combined Statement of Revenue, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds - Continued
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types			Fiduciary	Totals
	General	Special Revenue	Debt Service	Expendable Trust	(Memorandum) (Only)
EXPENDITURES:					
Operation of Non-Instructional Services:					
Community Services	\$ 0	234,357	0	0	\$ 234,357
Extracurricular Activities:					
Academic & Subject Oriented	29,075	104,269	0	0	133,344
Occupation Oriented Activities	0	12,732	0	0	12,732
Sports Oriented	344,190	204,769	0	0	548,959
Co-Curricular Activities	10,999	10,452	0	0	21,451
Capital Outlay:					
Site Improvement	460	6,050	0	294,832	301,342
Architecture & Engineering	0	0		29,000	29,000
Building Acquisition & Construction	25,044	0		0	25,044
Building Improvement	0	106,632	0	1,077,842	1,184,474
Debt Service:					
Principal Retirement	0	0	216,227	0	216,227
Interest & Fiscal Charges	0	0	0	0	0
Total Expenditures	28,688,461	6,646,543	216,227	1,834	38,223,812
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	212,371	(405,974)	(562)	820,921	642,243
Other Financing Sources and Uses:					
Other Financing Sources					
Sale & Loss of Assets	14,569	0	0	0	14,569
Transfers-In	0	29,690	0	21,644	51,334
Other Revenues	5,143	30,605	0	175	35,923
Other Financing Uses					
Transfer-Out	(84,913)	(2,178)	0	(21,644)	(108,735)
Refund of Prior Year Receipts	0	(21,319)	0	0	(21,319)
Other Expenses	0	0	0	0	0
Net Other Financing Sources and Uses	(65,201)	36,798	0	175	(28,228)
Excess (Deficiency) of Revenue Receipts and Other Sources Over Expenditure					
Disbursement and Other Uses	147,170	(369,176)	(562)	821,096	614,015
Increase (Decrease) Inventory	(24,553)	0	0	0	(24,553)
Beginning Fund Balance (As restated)	1,769,320	2,271,587	562	2,305,694	6,371,694
Ending Fund Balance	\$ 1,891,937	1,902,411	0	3,126,790	\$ 6,961,156

See Accompanying Notes to the General Purpose Financial Statements

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

	General Fund			Special Revenue Funds		
	Revised	Actual	Variance	Revised	Actual	Variance
	Budget		Favorable (Unfavorable)	Budget		Favorable (Unfavorable)
Revenues:						
Taxes	\$ 10,502,795	10,345,085	(157,710)	0	0	\$ 0
Tuition	110,873	111,846	973	0	0	0
Transportation Fees	33,907	52,047	18,140	0	0	0
Earnings on Investment	158,500	150,175	(8,325)	3,100	218	(2,882)
Extracurricular Activities	0	0	0	225,430	166,805	(58,625)
Miscellaneous	15,500	88,226	72,726	154,407	120,264	(34,143)
Restricted Grants-in-Aid	0	0	0	16,700	15,900	(800)
Revenue in Lieu of Taxes	21,000	0	(21,000)	0	0	0
State Unrestricted Grants-in-Aid	17,938,780	17,940,818	2,038	208,100	208,078	(22)
State Restricted Grants-in-Aid	501,040	493,105	(7,935)	2,307,294	2,249,094	(58,200)
Revenue for/on Behalf of District	84,315	79,521	(4,794)	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	3,789,729	2,826,168	(963,561)
Total Revenue	29,366,710	29,260,823	(105,887)	6,704,760	5,586,527	(1,118,233)
Expenditures:						
Regular Instruction	14,699,912	14,667,428	32,484	2,822,434	2,335,638	486,796
Special Instruction	3,666,270	3,584,612	81,658	2,059,780	1,495,566	564,214
Vocational Instruction	244,813	244,720	93	4,817	2,211	2,606
Other Instruction	83,800	80,569	3,231	0	0	0
Support Services-Pupils	1,463,901	1,446,635	17,266	480,880	385,715	95,165
Support Services-Instructional Staff	531,973	425,763	106,210	1,578,574	1,232,000	346,574
Support Services-Board of Education	126,955	115,150	11,805	0	0	0
Support Services-Administration	2,362,177	2,302,595	59,582	325,366	264,060	61,306
Fiscal Services	688,412	643,084	45,328	118,990	94,143	24,847
Support Services-Business	464,900	386,736	78,164	30,000	22,621	7,379
Operation & Maintenance-Plant	3,205,061	3,063,501	141,560	61,465	43,181	18,284
Support Services-Transportation	1,466,373	1,420,125	46,248	9,655	7,936	1,719
Support Services-Central	28,800	11,336	17,464	116,737	101,216	15,521
Community Services	0	0	0	318,704	239,984	78,720
Academic & Subject Oriented	29,126	29,033	93	172,021	111,131	60,890
Occupation Oriented Activities	0	0	0	27,488	12,767	14,721
Sports Oriented	334,347	333,851	496	313,682	212,542	101,140
Co-Curricular Activities	13,663	11,141	2,522	18,860	11,585	7,275
Site Improvement	500	460	40	7,600	6,050	1,550
Architecture & Engineering	0	0	0	0	0	0
Building Acquisitions & Construction	25,050	25,044	6	0	0	0
Building Improvement	0	0	0	125,000	106,632	18,368
Repayment of Debt	0	0	0	0	0	0
Total Expenditures	29,436,033	28,791,783	644,250	8,592,053	6,684,978	1,907,075
Excess of Revenue Over (Under) Expenditures	(69,323)	469,040	538,363	(1,887,293)	(1,098,451)	788,842
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	0	0	0
Sale & Loss of Assets	2,500	14,569	12,069	0	0	0
Transfer-In	1,200	0	(1,200)	48,123	29,690	(18,433)
Advances-In	369,476	508,920	139,444	0	232,695	232,695
Refund of Prior Years Expenditures	6,000	5,143	(857)	31,168	31,168	0
Transfer-Out	(250,000)	(84,913)	165,087	(2,178)	(2,178)	0
Advances-Out	0	(738,970)	(738,970)	(974)	(34,867)	(33,893)
Refund of Prior Years Receipts	0	0	0	(21,319)	(21,319)	0
Total Other Sources (Uses)	129,176	(295,251)	(424,427)	54,820	235,189	180,369
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	59,853	173,789	113,936	(1,832,473)	(863,262)	969,211
Beginning Fund Balance	570,975	570,975	0	2,282,108	2,282,108	0
Prior Year Carry Over Encumbrances	219,050	219,050	0	237,492	237,492	0
Ending Fund (Deficit) Balance	\$ 849,878	963,814	113,936	687,127	1,656,338	\$ 969,211

(Continued)

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

	Debt Service Funds			Capital Project Fund		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
Revenues:						
Taxes	\$ 216,228	215,665	(563)	3,090,808	3,040,660	\$ (50,148)
Tuition	0	0	0	0	0	0
Transportation Fees	0	0	0	0	0	0
Earnings on Investment	0	0	0	0	0	0
Extracurricular Activities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Restricted Grants-in-Aid	0	0	0	0	0	0
Revenue in Lieu of Taxes	0	0	0	4,800	0	(4,800)
State Unrestricted Grants-in-Aid	0	0	0	356,007	354,513	(1,494)
State Restricted Grants-in-Aid	0	0	0	213,950	211,940	(2,010)
Revenue for/on Behalf of District	0	0	0	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	0	0	0
Total Revenue	216,228	215,665	(563)	3,665,565	3,607,113	(58,452)
Expenditures:						
Regular Instruction	0	0	0	1,699,151	1,188,916	510,235
Special Instruction	0	0	0	1,000	0	1,000
Vocational Instruction	0	0	0	0	0	0
Other Instruction	0	0	0	0	0	0
Support Services-Pupils	0	0	0	0	0	0
Support Services-Instructional Staff	0	0	0	27,203	6,384	20,819
Support Services-Board of Education	0	0	0	0	0	0
Support Services-Administration	0	0	0	41,678	15,244	26,434
Fiscal Services	0	0	0	72,000	67,010	4,990
Support Services-Business	0	0	0	5,000	188	4,812
Operation & Maintenance-Plant	0	0	0	25,000	0	25,000
Support Services-Transportation	0	0	0	22,850	22,847	3
Support Services-Central	0	0	0	0	0	0
Community Services	0	0	0	0	0	0
Academic & Subject Oriented	0	0	0	0	0	0
Occupation Oriented Activities	0	0	0	0	0	0
Sports Oriented	0	0	0	0	0	0
Co-Curricular Activities	0	0	0	0	0	0
Site Improvement	0	0	0	570,016	374,664	195,352
Architecture & Engineering	0	0	0	29,000	29,000	0
Building Acquisitions & Construction	0	0	0	0	0	0
Building Improvement	0	0	0	1,983,575	1,255,549	728,026
Repayment of Debt	216,227	216,227	0	0	0	0
Total Expenditures	216,227	216,227	0	4,476,473	2,959,802	1,516,671
Excess of Revenue Over (Under) Expenditures	1	(562)	(563)	(810,908)	647,311	1,458,219
Other Financing Sources (Uses):						
Premium & Accrued Interest	500	0	(500)	0	0	0
Sale & Loss of Assets	0	0	0	0	0	0
Transfer-In	0	0	0	21,644	21,644	0
Advances-In	0	0	0	0	3,351	3,351
Refund of Prior Years Expenditures	0	0	0	175	175	0
Transfer-Out	0	0	0	(21,644)	(21,644)	0
Advances-Out	0	0	0	0	0	0
Refund of Prior Years Receipts	0	0	0	0	0	0
Total Other Sources (Uses)	500	0	(500)	175	3,526	3,351
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	501	(562)	(1,063)	(810,733)	650,837	1,461,570
Beginning Fund Balance	562	562	0	870,934	870,934	0
Prior Year Carry Over Encumbrances	0	0	0	484,993	484,993	0
Ending Fund (Deficit) Balance	\$ 1,063	0	(1,063)	545,194	2,006,764	\$ 1,461,570

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

	Expendable Trust Fund			Totals (Memorandum Only)		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
Revenues:						
Taxes	\$ 0	0	0	13,809,831	13,601,410	\$ (208,421)
Tuition	0	0	0	110,873	111,846	973
Transportation Fees	0	0	0	33,907	52,047	18,140
Earnings on Investment	120	37	(83)	161,720	150,430	(11,290)
Extracurricular Activities	0	0	0	225,430	166,805	(58,625)
Miscellaneous	6,000	17,284	11,284	175,907	225,774	49,867
Restricted Grants-in-Aid	0	0	0	16,700	15,900	(800)
Revenue in Lieu of Taxes	0	0	0	25,800	0	(25,800)
State Unrestricted Grants-in-Aid	0	0	0	18,502,887	18,503,409	522
State Restricted Grants-in-Aid	0	0	0	3,022,284	2,954,139	(68,145)
Revenue for/on Behalf of District	0	0	0	84,315	79,521	(4,794)
Federal Restricted Grants-in-Aid	0	0	0	3,789,729	2,826,168	(963,561)
Total Revenue	6,120	17,321	11,201	39,959,383	38,687,449	(1,271,934)
Expenditures:						
Regular Instruction	1,050	850	200	19,222,547	18,192,832	1,029,715
Special Instruction	0	0	0	5,727,050	5,080,178	646,872
Vocational Instruction	0	0	0	249,630	246,931	2,699
Other Instruction	0	0	0	83,800	80,569	3,231
Support Services-Pupils	2,063	572	1,491	1,946,844	1,832,922	113,922
Support Services-Instructional Staff	0	0	0	2,137,750	1,664,147	473,603
Support Services-Board of Education	0	0	0	126,955	115,150	11,805
Support Services-Administration	0	0	0	2,729,221	2,581,899	147,322
Fiscal Services	4,000	1,666	2,334	883,402	805,903	77,499
Support Services-Business	0	0	0	499,900	409,545	90,355
Operation & Maintenance-Plant	0	0	0	3,291,526	3,106,682	184,844
Support Services-Transportation	0	0	0	1,498,878	1,450,908	47,970
Support Services-Central	0	0	0	145,537	112,552	32,985
Community Services	450	0	450	319,154	239,984	79,170
Academic & Subject Oriented	0	0	0	201,147	140,164	60,983
Occupation Oriented Activities	0	0	0	27,488	12,767	14,721
Sports Oriented	0	0	0	648,029	546,393	101,636
Co-Curricular Activities	0	0	0	32,523	22,726	9,797
Site Improvement	0	0	0	578,116	381,174	196,942
Architecture & Engineering	0	0	0	29,000	29,000	0
Building Acquisitions & Construction	0	0	0	25,050	25,044	6
Building Improvement	0	0	0	2,108,575	1,362,181	746,394
Repayment of Debt	0	0	0	216,227	216,227	0
Total Expenditures	7,563	3,088	4,475	42,728,349	38,655,878	4,072,471
Excess of Revenue Over (Under) Expenditures	(1,443)	14,233	15,676	(2,768,966)	31,571	2,800,537
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	500	0	(500)
Sale & Loss of Assets	0	0	0	2,500	14,569	12,069
Transfer-In	0	0	0	70,967	51,334	(19,633)
Advances-In	0	0	0	369,476	744,966	375,490
Refund of Prior Years Expenditures	0	0	0	37,343	36,486	(857)
Transfer-Out	0	0	0	(273,822)	(108,735)	165,087
Advances-Out	0	0	0	(974)	(773,837)	(772,863)
Refund of Prior Years Receipts	0	0	0	(21,319)	(21,319)	0
Total Other Sources (Uses)	0	0	0	184,671	(56,536)	(241,207)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,443)	14,233	15,676	(2,584,295)	(24,965)	2,559,330
Beginning Fund Balance	25,735	25,735	0	3,750,314	3,750,314	0
Prior Year Carry Over Encumbrances	50	50	0	941,585	941,585	0
Ending Fund (Deficit) Balance	\$ 24,342	40,018	15,676	2,107,604	4,666,934	\$ 2,559,330

See Accompanying Notes to the General Purpose Statements

Ashtabula Area City School District
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
All Proprietary Fund Types and Similar Fiduciary Funds
For the Fiscal Year Ended June 30, 2002

	Proprietary		Fiduciary	Totals (Memorandum) (Only)
	Enterprise Funds	Internal Service Funds	Non- Expendable Trust Fund	
Operating Revenues:				
Sales	\$ 419,255	0	0	\$ 419,255
Extracurricular Activities	0	1,657	0	1,657
Classroom Materials & Fees	1,426	0	0	1,426
Charges for Services	0	4,416,040	0	4,416,040
Total Operating Revenue	420,681	4,417,697	0	4,838,378
Operating Expenses:				
Salary and Wages	601,788	0	0	601,788
Employee Benefits	285,948	0	0	285,948
Purchase Services	26,154	545,507	0	571,661
Supplies and Materials	569,152	699	0	569,851
Other Expenses	2,255	3,752,030	0	3,754,285
Depreciation	9,366	0	0	9,366
Total Operating Expenses	1,494,663	4,298,236	0	5,792,899
Operating Income (Loss)	(1,073,982)	119,461	0	(954,521)
Non-Operating Revenues:				
Earnings On Investments	0	0	177	177
Miscellaneous	0	0	3,239	3,239
State Unrestricted Grants-In-Aid	59,088	0	0	59,088
Federal Unrestricted Grants In-Aid	735,551	0	0	735,551
Federal Restricted Grants-in-Aid	76,021	0	0	76,021
Other Income	0	4,785	0	4,785
Total Non-Operating Revenue	870,660	4,785	3,416	878,861
Non-Operating Expenses:				
Loss on Disposal of Assets	(2,850)	0	0	(2,850)
Total Non-Operating Expenses	(2,850)	0	0	(2,850)
Net Income (Loss) Before Operating Transfers	(206,172)	124,246	3,416	(78,510)
Transfers-In	49,251	0	0	49,251
Total Transfers	49,251	0	0	49,251
Net Income (Loss)	(156,921)	124,246	3,416	(29,259)
Beginning Retained Earnings *See Note 15	(186,776)	612,087	5,038	430,349
Ending Retained Earnings	(343,697)	736,333	8,454	401,090
Net Contributed Capital	82,085	0	0	82,085
Total Fund Equity	\$ (261,612)	736,333	8,454	\$ 483,175

See Accompanying Notes to the General Purpose Financial Statements

Ashtabula Area City School District
Combined Statement of Cash Flows
All Proprietary Fund Types and Non-Expendable Trust Funds
For the Fiscal Year Ended June 30, 2002

	Proprietary		Fiduciary	Totals (Memorandum (Only))
	Enterprise Funds	Internal Service Funds	Non- Expendable Trust Fund	
Cash Flows from Operating Activities				
Operating Income (Loss)	\$ (1,073,982)	119,461	0	\$ (954,521)
Adjustment to Reconcile Operating Income (Loss)				
To Net Cash used in Operating Activities:				
Depreciation	9,366	0	0	9,366
Net (Increase) Decrease in Assets:				
Due from Other Governments	107,104	0	0	107,104
Accounts Receivable	98	(79,228)	0	(79,130)
Inventory	879	0	0	879
Net Increase (Decrease) in Liabilities:				
Due to Other Government	299	0	0	299
Accounts Payable	52,665	30,068	0	82,733
Claims Payable	0	(95,585)	0	(95,585)
Accrued Wages & Benefits	627	0	0	627
Deferred Revenue	(20,501)	0	0	(20,501)
Other	1,240	0	0	1,240
Total Adjustments	<u>151,777</u>	<u>(144,745)</u>	<u>0</u>	<u>7,032</u>
Net Cash Used in Operating Activities	<u>(922,205)</u>	<u>(25,284)</u>	<u>0</u>	<u>(947,489)</u>
Cash Flows from Investing Activities:				
Miscellaneous	0	4,785	3,238	8,023
Earnings on Investments	0	0	176	176
Net Cash Provided by Investing Activities	<u>0</u>	<u>4,785</u>	<u>3,414</u>	<u>8,199</u>
Cash Flows from Noncapital Activities				
Net of Advances from Other Funds	28,872	0	0	28,872
Operating Grants from State Sources	59,088	0	0	59,088
Operating Grants from Federal Sources	811,572	0	0	811,572
Transfers from Other Funds	49,251	0	0	49,251
Transfers to Other Funds	0	0	0	0
Net Cash Provided by Noncapital Financing Sources	<u>948,783</u>	<u>0</u>	<u>0</u>	<u>948,783</u>
Net Increase (Decrease) in Cash & Cash Equivalents	26,578	(20,499)	3,414	9,493
Cash and Cash Equivalents at Beginning of Year	27,533	801,393	5,040	833,966
Cash and Cash Equivalents at End of Year	<u>\$ 54,111</u>	<u>780,894</u>	<u>8,454</u>	<u>\$ 843,459</u>

See Accompanying Notes to The General Purpose Financial Statements

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Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the district.

Average daily membership (ADM) as of October 1, 2001, was 4,755. The District employed 21 administrative and supervisory personnel, 376 certified employees and 216 non-certificated employees.

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

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

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

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

The township governments of Ashtabula, Plymouth and Saybrook are each a separate body politic and corporate. Three trustees for each township are elected independent of any school district relationships and administer the provision of traditional services. The trustees act as the taxing and budgeting authority for these services.

The city government of Ashtabula, which is within the boundaries of the District, is a separate body politic and corporate. A City Manager and council are elected independent of any school district relationships and administer the provision of traditional city services. Council acts as the taxing and budgeting authority for these city services.

The Ashtabula County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. Its board of education is appointed by the representative school districts. The District is not involved in the budgeting or management of the Ashtabula County Joint Vocational School District. The District's students may attend the vocational school.

The District is not involved in the budgeting or management of Parent Teacher Associations or booster clubs. The District is also not responsible for any debt and has no influence over the organization or clubs.

Within the District's boundaries, Sts. John and Paul School K-12, is operated through the Youngstown Catholic Diocese. Northeast Academy is operated as an independent non-public school chartered by the Ohio Department of Education. Current state legislation provides funding to these schools. These monies are received and disbursed on behalf of the schools by the treasurer of the District, as directed by the schools. The accounting for these state monies is reflected as a special revenue fund of the District.

The Ashtabula County Public Library is a separate body politic of the State of Ohio which provides the community with various educational and literary resources governed by a board of trustees. The Board of Education does not exercise influence over its daily operation, participate in fiscal management or scope of public service, provide financial support, or hold accountability for fiscal services.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

The Harbor-Topky Memorial Library is a separate body politic. The Board of Education appoints new Trustees, by resolution, upon recommendation of the Trustees.

The District is a participating member of the Northeast Ohio Management Information Network (NEOMIN). NEOMIN provides data services needed by the participating school districts. The Trumbull County Educational Service Center serves as the fiscal agent. This is a jointly governed organization, and the District's participation is discussed in Note 16 to the General Purpose Financial Statements.

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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

Governmental Fund Types

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

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

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

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

Capital Project Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities (other than those financed by proprietary funds and trust funds).

Proprietary Fund Types

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

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

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

Fiduciary Fund Types

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

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

Nonexpendable Trust Funds - These funds account for trust principal which may not be expended. Only interest earned on the principal may be used for trust operations. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds.

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds (i.e., governmental funds only) because they do not affect expendable available financial resources. The following are the District's account groups:

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

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

C. Measurement Focus/Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for all Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The District uses 60 days past the end of the fiscal year as the available period for expenditures.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes, investment earnings, tuition, grants and entitlements, and accounts (student fees and rent).

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

The District reports deferred revenues of governmental funds on its combined balance sheet when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received before the occurrence of qualifying expenditures. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2002 which are not intended to finance fiscal year 2002 operations, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocation of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they are incurred, if measurable.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendments through the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated, the primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

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

By no later than January 20, the Board-adopted budget is filed with the Ashtabula County Budget Commission for rate determination.

Estimated Resources - Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final Amended Certificate issued during fiscal year 2002.

Appropriations - Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenditures of the District. The Appropriation Resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the combined balance sheet. During the fiscal year all investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and one-day repurchase agreements.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

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 the fiscal year amounted to \$150,175.

For the District, all investment earnings accrue to the General Fund, Auxiliary Service Fund, one Expendable and two Non-Expendable Trust Funds as authorized by board resolution. Interest income earned in fiscal year 2002 totaled \$150,607.

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

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A fund balance reserve has also been established.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 1. Summary of Significant Accounting Policies (continued)

G. Inventories

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale, and are expended when used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded using the nonallocation method. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

I. Fixed Assets

General fixed assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. Capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. Depreciation for assets in the General Fixed Assets Account Group are recorded in the General Fixed Assets Account Group not in the acquiring governmental fund.

All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of fixed assets utilized by the enterprise fund is also capitalized.

All reported fixed assets, other than land, are depreciated. Depreciation is computed using the straight-line method over an estimated useful life of the assets:

Description	Estimated Lives
Other Improvements	15 - 30 years
Buildings	15 - 30 years
Furniture and Equipment	5 - 20 years
Vehicles	5 - 15 years

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

J. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Grants and entitlements amounted to approximately 61% of the District's revenue during the 2002 fiscal year.

K. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2002, the District had short-term interfund loans in the amount of \$599,526.

L. Advances to Other Funds

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

M. Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. This method is known as the vesting method.

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

For governmental funds, the District records a liability for accumulated unused vacation time when earned. The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group. In proprietary funds, the entire amount of compensated absences are recorded as an expense and liability as the benefits accrue to the employee.

N. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. The assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expended and closed to unreserved retained earnings at year end. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. At June 30, 2002, the District had \$82,085 in contributed capital.

O. Long-Term Obligations

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

P. Interfund Transactions

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

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

Q. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and, therefore, are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for budget stabilization, inventory, encumbrances, and endowment.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

R. 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.

S. Memorandum Only - Total Columns

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

Note 2. Budgetary Basis of Accounting

While the 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and Expendable Trust Funds 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 that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds from a principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 2. Budgetary Basis of Accounting (continued)

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types and Expendable Trust Funds					
	General Fund	Special Revenue	Debt Service	Capital Project	Expendable Trust
GAAP Basis	\$ 147,170	(369,176)	(562)	821,096	\$ 15,487
Increase (Decrease):					
Due to Revenues:					
Net Adjustments to Revenues	359,990	(654,042)	0	115,445	0
Due to Expenditures:					
Net Adjustment to Expenditures	(103,321)	(38,435)	0	(289,055)	(1,254)
Due to Other Sources/Uses	(230,050)	198,391	0	3,351	0
Budget Basis	<u>\$ 173,789</u>	<u>(863,262)</u>	<u>(562)</u>	<u>650,837</u>	<u>\$ 14,233</u>

Note 3. Equity in Pooled Cash and Investments

State statutes classify monies held by the District into three categories. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of school district deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 3. Equity in Pooled Cash and Investments (continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the District;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand At fiscal year-end, the District had \$4,275 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 3. Equity in Pooled Cash and Investments (continued)

Deposits At fiscal year end, the carrying amount of the District's deposits was \$319,027 and the bank balance was \$756,638, of which \$100,000 was covered by federal depository insurance. The remaining amounts were protected by qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Investments The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the District's name. The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category			Carrying Value	Fair Value
	1	2	3		
Repurchase Agreement	\$ 0	\$ 0	\$ 3,325,509	\$ 3,325,509	3,325,509
STAR Ohio				2,641,732	2,641,732
Total Investments				<u>\$ 5,967,241</u>	<u>\$ 5,967,241</u>

The classification of equity in pooled cash and investments on the combined financial statements represents cash and cash equivalents as defined in GASB Statement No. 9, entitled *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 3. Equity in Pooled Cash and Investments (continued)

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 6,290,543	\$ 0
Investments:		
Repurchase Agreement	(3,325,509)	3,325,509
STAR Ohio	(2,641,732)	2,641,732
Total	323,302	5,967,241
Cash on Hand	(4,275)	0
GASB Statement No. 3	<u>\$ 319,027</u>	<u>\$ 5,967,241</u>

Note 4. Property Taxes

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every three years. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are payable annually or semi-annually with the first payment due April 30 and the remainder payable by October.

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

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 4. Property Taxes (continued)

The full tax rate at the fiscal year ending June 30, 2002, for operations was \$49.30 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the 2002 taxes were collected were as follows:

Real Property	\$	304,385,330
Public Utility Personal		34,871,830
Tangible Personal Property		<u>45,479,670</u>
Total Assessed Value	\$	<u><u>384,736,830</u></u>

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2002 was \$3,406,564 in the General Fund and \$1,019,047 in the Capital Projects Fund.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 5. Receivables

Receivables at June 30, 2002, consisted of taxes, accounts (student fees), interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of intergovernmental receivables follows:

General Fund:	
Transportation Fees	\$ 1,739
Total General Fund	1,739
Special Revenue Funds:	
CAFS	95,751
Auxiliary Services	61,259
Title II	19,766
Literacy	15,618
Title VI-B	172,361
Title I	208,398
Title VI	25,403
Title IV	20,555
Preschool	13,198
REA	272,919
Title VIR	26,653
SIG	32,874
Total Special Revenue Funds	<u>964,755</u>
Capital Project Funds:	
ADA Improvement	9,994
Total Capital Project Funds:	<u>9,994</u>
	<u><u>\$ 976,488</u></u>

Note 6. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. Other liability insurance includes \$25,000 for the district superintendent and \$50,000 for the district treasurer. Additionally the district has commercial crime coverage of \$10,000.

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 6. Risk Management (continued)

The District maintains replacement cost insurance on buildings and contents in the amount of \$57,317,612. Other property insurance includes \$1,543,212 for musical instrument, related equipment and accessories and electronic data processing hardware. The District participates in the Workers' Compensation Program provided by the State of Ohio.

The District has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs.

This self-insurance fund was established January 1994, for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the General Fund, Lunchroom Fund, and certain Special Revenue Funds (Grants). Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier. Stop loss coverage of \$150,000 is carried by the District for each individual employee. In addition, an aggregate pooling limit is insured at \$2,535,605. Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The basis for estimating the liability for claims incurred but not yet paid is based on past experience and documentation obtained by the insurance carrier. The Third Party Administrator changed to Medical Mutual of Ohio effective January 1, 2001 resulting in higher discounts and lowering claims paid. Changes in the fund's claims liability for the last three years are as follows:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
FY 2000	\$ 553,852	3,903,839	(3,674,186)	\$ 783,505
FY 2001	\$ 783,505	2,892,779	(3,200,619)	\$ 475,665
FY 2002	\$ 475,665	3,231,943	(3,327,530)	\$ 380,078

Monies are provided from each fund based on a per-employee charge and are recorded as charges for services in the Self-Insurance Fund and as an expenditure in the disbursing fund. The following is a summary of payments made to the Self-Insurance Fund by fund type:

General Fund	\$ 3,523,968
Special Revenue Funds	575,326
Enterprise Funds	140,716
Total Contributed by Funds	4,240,010
Employee Contributions	54,649
Total Contributions	<u>\$ 4,294,659</u>

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 6. Risk Management (continued)

An actuarial valuation of claim liability and funded status for the period ended December 31, 2000, reported reserved funds available to pay incurred but not reported claims of that date are \$977,000. It is thus concluded that minimum requirement under interpretation of Section 9.833 of the Ohio Revised Code are satisfied.

Note 7. Defined Benefit Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001 (the latest information available), 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund the pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$706,008, \$710,616 and \$710,554, respectively; 44.34 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$443,205 representing the unpaid contribution for fiscal year 2002, including the surcharge, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000 (the latest information available), 6 percent was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 7. Defined Benefit Pension Plans (continued)

required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$2,361,744, \$2,379,600 and \$2,255,302, respectively; 83.33 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$393,624 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

Note 8. Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001 (the latest information available), the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2001. For the District, this amount equaled \$759,132 for fiscal year 2002.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001 (the latest information available), employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent for fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the District, the amount to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$584,407.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 9. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from board policy, negotiated agreements and State laws. The Superintendent, Treasurer, twelve (12) month Administrators and twelve (12) month classified employees earn vacation. Classified employees accumulate vacation based on the following factors:

Length of Service	Vacation Leave
After 1 Year	2 Weeks
After 7 Years	3 Weeks
After 17 Years	4 Weeks

In addition to the vacation schedule above, classified employees having served the District continuously for more than nineteen (19) years shall be entitled to one (1) additional day for each complete year served in the District in excess of nineteen (19) years.

Vacations for classified employees can be taken any time during the year, but no more than five (5) weeks are to be taken in succession. Employees may carry over a maximum of ten (10) days from one year to the next.

The Superintendent earns 25 days vacation per year. All or part of vacation leave accrued but unused at the end of any contract year (July 31) may be exchanged for cash, at the option of the Superintendent, at his current per diem pay rate. All vacation leave which is accrued and unused and which is not exchanged for cash, shall be accumulated and carried forward from year to year under the current contract.

The Treasurer earns 25 days vacation per year and may carry over 30 days from one year to the next.

The twelve (12) month Administrators earn 20 days vacation per year and may carry over 10 days from one year to the next.

Vacation Pay: All twelve (12) month classified employees may choose to be paid for any and all earned vacation days in lieu of time off at the rate that would have been paid to a substitute.

Sick Leave: Each employee earns sick leave at the rate of one and one-fourth days per month. Sick Leave has an unlimited accumulation of days for certificated personnel and classified personnel.

Service Retirement: Upon retirement, employees shall receive in one lump sum, one-fourth (1/4) of the accumulated sick leave days and one-fourth (1/4) of accrued, unused sick leave days for certificated personnel multiplied times the per diem rate at the time of retirement.

Retirement Incentive Plan: The Board offers a retirement incentive plan to those certificated employees who are eligible to retire with 30 years of service credit in accordance with the rules and regulations established by the STRS and other qualifications per the negotiated agreement.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 9. Compensated Absences (continued)

The plan is as follows:

1. The R.I. payment shall be equal to 20% (25% for retirees employed for 30 years or more) of the retirees placement on the salary schedule for the last full school year worked.
2. The R.I. payment shall be made the first certificated pay in January of the following calendar year.
3. The Severance payment shall be made the first certificated pay in January in the calendar year following the R.I. payment.

The first time an employee meets the criteria for the R.I. Plan as outlined above is the only time the plan is offered to an employee.

Note 10. Interfund Transactions

At June 30, 2002, the District had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 599,526	\$ 0
Special Revenue Funds	0	198,802
Capital Project Funds	0	9,995
Enterprise Funds	0	390,729
	\$ 599,526	\$ 599,526

A summary of interfund (operating) transfers made during 2002 by fund is as follows:

	Transfers Out	Transfers In
General Fund	\$ 84,913	\$ 0
Special Revenue Funds	2,178	29,690
Capital Projects Funds	21,644	21,644
Enterprise Funds	0	49,251
Trust & Agency Funds	436	8,586
	\$ 109,171	\$ 109,171

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 11. Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is a defendant in legal proceedings pertaining to matters which are incidental to performing routine governmental and other functions. Based on the status of these legal proceedings, it is the opinion of management and legal counsel that the ultimate resolution of such will result in no significant exposure to the District.

Note 12. General Long-Term Debt

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

	Balance				Balance
	July 1, 2001	Additions	Deletions		June 30, 2002
Intergovernmental Payable	\$ 244,201	243,777	244,201	\$	243,777
Capital Leases Payable	162,673	0	35,941		126,732
General Obligation Notes Payable	367,000	0	197,000		170,000
Compensated Absences Payable	2,257,773	2,583,252	2,257,773		2,583,252
Early Retirement Incentive	62,992	98,146	62,992		98,146
Total General Long-Term Obligations	<u>\$ 3,094,639</u>	<u>2,925,175</u>	<u>2,797,907</u>	<u>\$</u>	<u>3,221,907</u>

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

Outstanding general obligation notes in the amount of \$35,000 relate to a project in 1992, for which notes were issued to purchase and install energy conservation measures. These notes mature December 1, 2002, and are unvoted notes authorized by House Bill 264 which was legislation enacted by the Ohio General Assembly.

On August 12, 1992, the Board of Education authorized the issuance of the notes in the maximum amount of \$535,000. The notes were dated June 1, 1992, for \$535,000 and mature in semi-annual installments through December 1, 2002, with interest payable at 6.40%.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 12. General Long-Term Debt (continued)

The annual maturities of the general obligation notes for Energy Conservation measures as of June 30, 2002, and related interest payments are as follows:

	Payment	Interest	Principal
FY2003	\$ 36,120	1,120	\$ 35,000
	<u>\$ 36,120</u>	<u>1,120</u>	<u>\$ 35,000</u>

On June 7, 1999 the Board of Education authorized the issuance of the notes in the maximum amount of \$315,000. The notes were dated June 1, 1999 for \$315,000 and mature annually through April 15, 2004 with interest payable at 5.141145%.

	Payment	Interest	Principal
FY2003	\$ 71,953	6,953	\$ 65,000
FY2004	73,605	3,605	70,000
	<u>\$ 145,558</u>	<u>10,558</u>	<u>\$ 135,000</u>

The Ohio Revised Code Section 133.06 stipulates that the principal amount of a District's unvoted debt may not exceed nine tenths of one percent of its tax valuation, and the total net unvoted debt of the district shall not exceed one percent of the District's tax valuation. The District's energy conservation notes and school bus acquisition notes stand within these statutory limitations as prescribed by Ohio Revised Code Section 133.06.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 13. Capital Leases

During the year ended June 30, 2002, the District entered into a lease agreement for six copiers. The lease obligation meets the criteria of a capital lease, as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, and has been recorded in the general long-term obligations account group. The agreement provides for minimum annual rental payments as follows:

	Payment	Interest	Principal
FY2003	\$ 49,443	10,519	\$ 38,924
FY2004	49,443	7,288	42,155
FY2005	49,443	3,790	45,653
	<u>\$ 148,329</u>	<u>21,597</u>	<u>\$ 126,732</u>

Note 14. Operating Leases

The District leases several copier machines from various vendors. The following are general descriptions of the lease agreements:

A 60-month lease with Xerox, which began in May 1999. At the end of the lease term, the District has the option to renew the lease on a month-to-month basis or to purchase the copier for \$450. The District does not intend to exercise the purchase option at the end of the lease term.

A 60-month lease with Danka, which began in April 2000. Copiers for use in various schools with an option for purchase at the end of the lease.

A 24-month lease with MCSi which began in August 2000. Computer equipment for various schools with an option for purchase at the end of the lease.

A 60-month lease with Danka which began in September 2000. Copiers for three elementary buildings with an option for purchase at the end of the lease.

The total rental expense for the year ended June 30, 2002 for the various operating leases was \$100,551.

Future minimum payments for leases with remaining lease terms in excess of one year for the years ended June 30 are as follows:

FY2003	2,395
FY2004	<u>1,996</u>
Total	<u>\$ 4,391</u>

Warehouse property was leased for stockroom supplies and total rent expense paid for this lease for the year ended June 30, 2002, was \$6,600.

Property was leased for parking for Lakeside High School and a total rent expense paid for this lease for the year ended June 30, 2002 was \$2,400.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 15. Fixed Assets

Fixed asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance at 6/30/2001	Additions	Reductions	Balance at 6/30/2002
General Fixed Assets				
Land	\$ 289,362	\$ 0	\$ 0	\$ 289,362
Other Improvements	309,447	149,975	0	459,422
Buildings	10,199,443	456,842	0	10,656,285
Furniture and Equipment	5,559,375	246,637	(373,237)	5,432,775
Vehicles	2,599,288	74,847	(172,000)	2,502,135
Textbooks	654,321	623,992	0	1,278,313
Totals at Historical Cost	<u>19,611,236</u>	<u>1,552,293</u>	<u>(545,237)</u>	<u>20,618,292</u>
Less Accumulated Depreciation:				
Other Improvements	(227,347)	(23,621)	1,068	(249,900)
Buildings	(5,546,810)	(178,998)	6,247	(5,719,561)
Furniture and Equipment	(3,281,192)	(334,493)	757,110	(2,858,575)
Vehicles	(1,536,915)	(113,406)	96,649	(1,553,672)
Textbooks	(10,905)	(215,531)	0	(226,436)
Total Accumulated Depreciation	<u>(10,603,169)</u>	<u>(866,049)</u>	<u>861,074</u>	<u>(10,608,144)</u>
General Fixed Assets				
Fixed Assets, Net	<u>\$ 9,008,067</u>	<u>\$ 686,244</u>	<u>\$ 315,837</u>	<u>\$ 10,010,148</u>

There was no significant construction in progress at June 30, 2002.

	Balance at 6/30/2001	Additions	Reductions	Balance at 6/30/2002
Proprietary Fund Assets				
Equipment	\$ 387,946	\$ 12,954	\$ (6,342)	\$ 394,558
Totals at Historical Cost	<u>387,946</u>	<u>12,954</u>	<u>(6,342)</u>	<u>394,558</u>
Less Accumulated Depreciation:				
Equipment	(158,814)	(9,366)	3,492	(164,688)
Less Accumulated Depreciation	<u>(158,814)</u>	<u>(9,366)</u>	<u>3,492</u>	<u>(164,688)</u>
Proprietary Fund				
Fixed Assets, Net	<u>\$ 229,132</u>	<u>\$ 3,588</u>	<u>\$ (2,850)</u>	<u>\$ 229,870</u>

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 15. Fixed Assets (continued)

Fixed assets for June 30, 2002, were restated to account for an increase in the capitalization threshold to \$1,000. The District increased the capitalization threshold to reduce the cost of maintaining fixed asset information by significantly reducing the number of fixed assets to be tracked by the District. In addition, the District has elected to begin calculating and reporting depreciation for the assets recorded in the General Fixed Assets Account Group in preparation for future GASB 34 implementation. This restatement had the following effect on fund equity as it was previously reported:

	Enterprise Funds	General Fixed Asset Account Group
Fixed Assets June 30, 2001	\$ 281,342	\$ 20,095,243
Depreciation Adjustments:		
Change in Depreciation	42,197	(10,603,169)
Change in Threshold:		
Fixed Assets	(94,407)	(1,138,328)
Addition of Textbooks		654,321
Adjusted Net Assets at June 30, 2001	\$ 229,132	\$ 9,008,067
Retained Earnings June 30, 2001	\$ (134,566)	
Net Adjustments to Retaining Earnings	(52,210)	
Restated Retained Earnings June 30, 2001	\$ (186,776)	

Note 16. Jointly Governed Organization

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. The District contributed \$71,220 to NEOMIN during fiscal year 2002.

Superintendents and Treasurers of the participating school districts are eligible to be voting members of the Governing Board which consists of ten voting members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and one treasurer from each county. The District was represented on the Governing Board by the District's superintendent during fiscal year 2002. The degree of control exercised by any 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 Board of Education, 347 North Park Avenue, Warren, Ohio, 44481.

**Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)**

Note 17. Segments of Enterprise Activities

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

	Lunchroom Fund	Uniform School Supplies Fund	Total
Operating Revenues	\$ 419,256	\$ 1,425	\$ 420,681
Operating Expenses:			
Depreciation	9,366	0	9,366
Other Expenses	1,481,015	4,282	1,485,297
Total Operating Expenses	<u>1,490,381</u>	<u>4,282</u>	<u>1,494,663</u>
Operating Income (loss)	(1,071,125)	(2,857)	(1,073,982)
Non Operating Revenues and Expenses:			
Transfers In	49,251	0	49,251
Loss on disposal of Assets	(2,850)	0	(2,850)
Operating Grants	870,660	0	870,660
Net Income	<u>\$ (154,064)</u>	<u>\$ (2,857)</u>	<u>\$ (156,921)</u>
Net Working Capital	<u>\$ (501,972)</u>	<u>\$ 10,490</u>	<u>\$ (491,482)</u>
Total Assets	<u>\$ 300,953</u>	<u>\$ 10,490</u>	<u>\$ 311,443</u>
Total Liabilities	<u>\$ 573,055</u>	<u>\$ 0</u>	<u>\$ 573,055</u>
Total Fund Equity	<u>\$ (272,102)</u>	<u>\$ 10,490</u>	<u>\$ (261,612)</u>

Note 18. State School Funding Decision

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

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

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 19. Statutory Reserves

The District is required by State statute to annually set-aside an amount based on prior year revenues for the purchase of textbooks, and other instructional materials, and an additional amount for capital improvements. Amounts not spent by year end or offset by similarly restricted resources must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following table shows the set-aside and changes for the fiscal year:

	Textbook Acquisition	Capital Acquisition	Budget Stabilization
Set aside Cash Balance as of June 30, 2001	\$ 0	\$ 0	\$ 318,200
Current Year Set-Aside Requirement	580,978	580,978	0
Qualifying Disbursements	<u>(1,098,668)</u>	<u>(2,292,140)</u>	<u>(3,491)</u>
Cash Balance Carried Forward to FY2003	<u>\$ (517,690)</u>	<u> </u>	<u>\$ 314,709</u>

Although the District had qualifying expenditures for capital maintenance during the year that reduced the set-aside amounts below zero, this extra amount may not be used to reduce the set-aside requirements of future years. However, the amount spend on textbooks can be carried forward to reduce the set-aside requirements of future years.

Note 20. Workers' Compensation Group Rating Program

The District participates in the Ohio Schools Council Group Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The Ohio Schools Council's business and affairs are conducted by a seven (7) member board of directors consisting of Chairman, Vice-Chairman, Past Chairman, GCSSA Treasurer, and three (3) Directors. The Executive Secretary/Treasurer of the Ohio Schools Council serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Ohio Schools Council to cover the costs of administering the program.

The intent of the Ohio Schools Council GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Consultant Services provides third party administrator services, cost control and actuarial services to the group. Careworks, Inc. serves as the manage care organization to administer medical only claims.

Ashtabula Area City School District
Ashtabula County
Notes to the General Purpose Financial Statements
June 30, 2002
(Continued)

Note 21. Deficit Balances

Fund balances at June 30, 2002, included the following fund deficits:

Education Management	\$	(16,760)
Title II-A	\$	(133)
Lunchroom	\$	(289,540)

The deficits resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The District is aware of the deficits and will take the necessary steps to alleviate the deficit. The deficits results from revenue being insufficient to cover expenditures on the modified accrual basis of accounting. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

Note 22. Subsequent Events

On May 7, 2002, the voters of the Ashtabula Area City School district approved a 7 Mill Bond Issue for the purpose of constructing new school facilities in conjunction with the Ohio School Facilities Commission and the Expedited Local Partnership Plan. The total local share of the project, including local incentives, is \$44,123,700.

The district issued two notes on July 16, 2002, Series A is for \$40,000,000, Series B is for \$4,123,700.

On August 1, 2002, School Facilities Construction and Improvement Bonds, Series A, was issued for \$39,999,958. On January 29, 2003, School Facilities Construction and Improvement Bonds, Series B, was issued for \$4,123,699.

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$72,367		\$75,429
National School Lunch Program	LL-P4-02	10.555	672,889		672,889	
School Breakfast Program	05-PU-02	10.553	169,766		169,766	
Total U.S. Department of Agriculture - Nutrition Cluster			842,655	72,367	842,655	75,429
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)						
	6B-SF-00	84.027	65,645		149,950	
	6B-SF-01	84.027	331,900		372,520	
	6B-EC-00	84.027	3,579		3,579	
Subtotal - CFDA #84.027			401,124		526,049	
Special Education - Preschool Grant						
	PG-S1-00	84.173	974		974	
	PG-S1-01	84.173	19,795		25,565	
Subtotal - CFDA #84.173			20,769		26,539	
Total Special Education Cluster			421,893		552,588	
Eisenhower Professional Development State Grant						
	MS-S1-01	84.281			11,417	
	MS-S1-02	84.281	32,319		31,105	
Subtotal - CFDA #84.281			32,319		42,522	
Grants to Local Educational Agencies (ESEA Title I)						
	C1-S1-01	84.010	-14,328		182,927	
	C1-S1-01-C	84.010	207,663		207,663	
	C1-S1-02	84.010	1,249,499		987,724	
Subtotal - CFDA #84.010			1,442,834		1,378,314	
Title I Standards, Assessment and Accountability Grant						
	AK-S1-02	84.348A	105,318		85,859	
Innovative Educational Program Strategies						
	C2-S1-00	84.298			655	
	C2-S1-01	84.298			16,191	
	C2-S1-02	84.298	9,094		8,717	
Subtotal - CFDA #84.298			9,094		25,563	
Drug-Free Schools Grant						
	DR-S1-00	84.186			876	
	DR-S1-01	84.186	3,880		31,745	
	DR-S1-02	84.186	26,751		23,275	
Subtotal - CFDA #84.186			30,631		55,896	
Class Size Reduction (ESEA Title VI-R)						
	CR-S1-00	84.340			49,618	
	CR-S1-01	84.340	9,612		35,654	
	CR-S1-02	84.340	216,132		84,961	
Subtotal - CFDA #84.340			225,744		170,233	
Reading Excellence Act						
	RN-S1-00	84.338	550,802		878,314	
Goals 2000-State and Local Educational Systematic Improvement Grants						
	G2-S1-00	84.276			2,605	
	G2-S1-01	84.276			20,452	
	G2-S2-00	84.276			20,870	
	G2-S2-01	84.276			23,097	
	G2-S3-01	84.276	4,369			
Subtotal - CFDA #84.276			4,369		67,024	
State Program Improvement Grant Special Education						
	ST-S1-01	84.323			51,581	
<i>Passed Through Ohio Department of Education: Passed Through Ashtabula County Joint Vocational School</i>						
Vocational Education-- Basic Grants to States--Career Education Mini Grant						
	VED-NN-02	84.048	3,165		2,665	
Total Department of Education			2,826,169		3,310,559	
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Funding Program						
		93.778	287,662		287,662	
Total Department of Mental Retardation and Development Disabilities			287,662		287,662	
Totals			\$3,956,486	\$72,367	\$4,440,876	\$75,429

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

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

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Auditor of State Betty Montgomery

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

Ashtabula Area City School District
Ashtabula County
401 W. 44th Street
Ashtabula, Ohio 44005-0290

To the Board of Education:

We have audited the financial statements of Ashtabula Area City School District (the District), Ashtabula County, (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated February 14, 2003. During the year, the District began depreciating the assets in the general fixed asset account group and increased the fixed asset capitalization threshold. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 14, 2003.

Ashtabula Area City School District
Ashtabula County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 14, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ashtabula Area City School District
Ashtabula County
401 W. 44th Street
Ashtabula, Ohio 44005-0290

To the Board of Education:

Compliance

We have audited the compliance of Ashtabula Area City School District, Ashtabula County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated February 14, 2003.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 14, 2003.

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

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

Betty Montgomery
Auditor of State

February 14, 2003

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010: Title I Grants to Local Education Agencies CFDA # 84.338: Reading Excellence Act Grant CFDA #84.027 & 84.173: Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-11104-001	Material Non-Compliance.: Ohio Rev. Code Section 5705.41(B)-- Expenditures exceeding Appropriations in the Nelson Endowment Fund.	Yes	N/A



**Auditor of State
Betty Montgomery**

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ASHTABULA 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 8, 2003**