



**Auditor of State
Betty Montgomery**

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Continental Local School District
Putnam County
5211 State Route 634
P.O. Box 479
Continental, Ohio 45831-0479

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Continental Local School District (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 Continental Local School District, Putnam County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 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 receipts and 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

January 28, 2003

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**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$1,423,981	\$290,765	\$137,142	\$474,780
Investments				
Investments - Nonexpendable Trust Fund				
Receivables:				
Property taxes - current and delinquent	1,057,135	20,800	122,235	47,481
Accounts	1,043	9,489		
Accrued interest	2,079			
Due from other governments		31,908		
Materials and supplies inventory				
Prepayments	33,166			
Restricted assets:				
Equity in pooled cash and cash equivalents	30,334			
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$2,547,738	\$352,962	\$259,377	\$522,261

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$26,390	\$41,255			\$2,394,313
	5,000			5,000
	40,439			40,439
6,308				1,253,959
	40			10,572
				2,079
				31,908
3,885				3,885
				33,166
				30,334
186,018		\$19,107,809		19,293,827
			\$145,173	145,173
			1,899,506	1,899,506
<u>\$222,601</u>	<u>\$86,734</u>	<u>\$19,107,809</u>	<u>\$2,044,679</u>	<u>\$25,144,161</u>

(Continued)

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$50,581	\$9,381		
Contracts payable				\$40,235
Retainage payable				56,235
Accrued wages and benefits	421,639	15,146		
Compensated absences payable	3,338			
Pension obligation payable	84,878			
Deferred revenue	837,797	21,222	\$114,204	53,377
Due to other governments	16,884	786		
Due to students				
General obligation bonds payable				
Obligation under capital lease				
Total liabilities	1,415,117	46,535	114,204	149,847
Equity and other credits:				
Investment in general fixed assets				
Accumulated deficit				
Fund balances:				
Reserved for encumbrances	45,995	29,496		63,672
Reserved for prepayments	33,166			
Reserved for debt service			137,142	
Reserved for tax revenue unavailable for appropriation	51,251	1,253	8,031	2,804
Reserved for principal endowment				
Reserved for capital maintenance	4,130			
Reserved for school bus purchases	26,204			
Designated for capital maintenance	103,960			
Unreserved-undesignated	867,915	275,678		305,938
Total equity and other credits	1,132,621	306,427	145,173	372,414
Total liabilities, equity and other credits	\$2,547,738	\$352,962	\$259,377	\$522,261

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

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Enterprise	Trust and Agency			
\$3,790				\$63,752
				40,235
				56,235
14,166				450,951
12,915			\$365,602	381,855
13,953			37,896	136,727
8,128				1,034,728
509	\$2,013			20,192
	36,327			36,327
			1,525,678	1,525,678
			115,503	115,503
<u>53,461</u>	<u>38,340</u>		<u>2,044,679</u>	<u>3,862,183</u>
		\$19,107,809		19,107,809
169,140				169,140
				139,163
				33,166
				137,142
				63,339
	34,170			34,170
				4,130
				26,204
				103,960
	14,224			1,463,755
<u>169,140</u>	<u>48,394</u>	<u>19,107,809</u>		<u>21,281,978</u>
<u>\$222,601</u>	<u>\$86,734</u>	<u>\$19,107,809</u>	<u>\$2,044,679</u>	<u>\$25,144,161</u>

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental and Similar Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$1,328,740	\$18,366
Earnings on investments	71,203	1,208
Extracurricular activities		60,649
Other local revenues	109,651	46,722
Intergovernmental - State	3,469,900	102,454
Intergovernmental - Federal		486,961
Total revenues	<u>4,979,494</u>	<u>716,360</u>
Expenditures:		
Current:		
Instruction:		
Regular	2,597,946	209,040
Special	543,654	181,560
Vocational	81,489	7,705
Support services:		
Pupil	154,488	20,118
Instructional staff	250,230	230,505
Board of Education	50,191	
Administration	526,357	21,665
Fiscal	106,503	1,567
Operations and maintenance	798,883	14,467
Pupil transportation	224,253	1,267
Central	8,998	696
Community services		5,226
Extracurricular activities	83,143	55,730
Facilities acquisition and construction	26,529	
Capital outlay	53,756	
Debt service:		
Principal retirement	60,288	
Interest and fiscal charges	11,230	
Total expenditures	<u>5,577,938</u>	<u>749,546</u>
Excess of revenues over (under) expenditures	<u>(598,444)</u>	<u>(33,186)</u>
Other financing sources (uses):		
Operating transfers in		10,717
Operating transfers out	(25,717)	
Proceeds of capital lease transaction	53,756	
Total other financing sources (uses)	<u>28,039</u>	<u>10,717</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(570,405)</u>	<u>(22,469)</u>
Fund balances, July 1	<u>1,703,026</u>	<u>328,896</u>
Fund balances, June 30	<u>\$1,132,621</u>	<u>\$306,427</u>

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$125,656	\$42,192		\$1,514,954
	29,214	\$170	101,795
			60,649
		450	156,823
17,122	39,876		3,629,352
			486,961
<u>142,778</u>	<u>111,282</u>	<u>620</u>	<u>5,950,534</u>
			2,806,986
			725,214
			89,194
			174,606
	17,000		497,735
			50,191
3,582			551,604
			108,070
	190,025		1,003,375
			225,520
			9,694
		4,121	9,347
			138,873
	1,896,809		1,923,338
			53,756
55,000			115,288
68,208			79,438
<u>126,790</u>	<u>2,103,834</u>	<u>4,121</u>	<u>8,562,229</u>
<u>15,988</u>	<u>(1,992,552)</u>	<u>(3,501)</u>	<u>(2,611,695)</u>
			10,717
			(25,717)
			53,756
			38,756
15,988	(1,992,552)	(3,501)	(2,572,939)
129,185	2,364,966	11,416	4,537,489
<u>\$145,173</u>	<u>\$372,414</u>	<u>\$7,915</u>	<u>\$1,964,550</u>

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Taxes	\$1,417,861	\$1,342,856	(\$75,005)
Earnings on investments	200,000	77,665	(122,335)
Extracurricular activities			
Other local revenues	126,000	56,369	(69,631)
Intergovernmental - State	3,565,898	3,469,900	(95,998)
Intergovernmental - Federal			
Total revenues	<u>5,309,759</u>	<u>4,946,790</u>	<u>(362,969)</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,655,400	2,605,678	49,722
Special	591,179	554,713	36,466
Vocational	111,378	78,372	33,006
Support services:			
Pupil	159,787	157,549	2,238
Instructional staff	402,465	323,806	78,659
Board of Education	69,436	58,543	10,893
Administration	533,994	526,350	7,644
Fiscal	113,552	104,382	9,170
Operations and maintenance	1,045,816	839,638	206,178
Pupil transportation	306,052	229,592	76,460
Central	1,289	345	944
Community services			
Extracurricular activities	84,204	83,047	1,157
Facilities acquisition and construction	180,865	27,378	153,487
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>6,255,417</u>	<u>5,589,393</u>	<u>666,024</u>
Excess of revenues over (under) expenditures	<u>(945,658)</u>	<u>(642,603)</u>	<u>303,055</u>
Other financing sources (uses):			
Operating transfers in			
Operating transfers out	(55,155)	(25,717)	29,438
Refund of prior year expenditure		52,631	52,631
Total other financing sources (uses)	<u>(55,155)</u>	<u>26,914</u>	<u>82,069</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses).	(1,000,813)	(615,689)	385,124
Fund balances, July 1	1,772,344	1,772,344	
Prior year encumbrances appropriated	201,084	201,084	
Fund balances, June 30	<u>\$972,615</u>	<u>\$1,357,739</u>	<u>\$385,124</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$18,447	\$18,580	\$133	\$128,712	\$128,712	
1,130	1,208	78			
71,649	68,503	(3,146)			
85,444	37,233	(48,211)			
129,511	129,701	190	17,122	17,122	
375,269	375,268	(1)			
<u>681,450</u>	<u>630,493</u>	<u>(50,957)</u>	<u>145,834</u>	<u>145,834</u>	
222,447	218,418	4,029			
111,907	99,776	12,131			
11,436	11,391	45			
21,016	21,016				
269,054	255,380	13,674			
21,363	17,635	3,728	4,110	3,582	\$528
1,559	1,559				
6,055	5,655	400			
1,268	1,268				
2,502	702	1,800			
10,000	5,226	4,774			
62,970	55,869	7,101			
			55,000	55,000	
			125,000	68,208	56,792
<u>741,577</u>	<u>693,895</u>	<u>47,682</u>	<u>184,110</u>	<u>126,790</u>	<u>57,320</u>
<u>(60,127)</u>	<u>(63,402)</u>	<u>(3,275)</u>	<u>(38,276)</u>	<u>19,044</u>	<u>57,320</u>
	10,717	10,717			
	10,717	10,717			
(60,127)	(52,685)	7,442	(38,276)	19,044	57,320
241,486	241,486		118,098	118,098	
72,087	72,087				
<u>\$253,446</u>	<u>\$260,888</u>	<u>\$7,442</u>	<u>\$79,822</u>	<u>\$137,142</u>	<u>\$57,320</u>

(Continued)

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)**

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$43,144	\$42,677	(\$467)
Earnings on investments	28,631	29,214	583
Extracurricular activities			
Other local revenues			
Intergovernmental - State	48,081	48,575	494
Intergovernmental - Federal			
Total revenues	<u>119,856</u>	<u>120,466</u>	<u>610</u>
Expenditures:			
Current:			
Instruction:			
Regular			
Special			
Vocational			
Support services:			
Pupil			
Instructional staff	17,986	17,986	
Board of Education			
Administration			
Fiscal			
Operations and maintenance	192,984	192,450	534
Pupil transportation			
Central			
Community services			
Extracurricular activities			
Facilities acquisition and construction	2,414,693	2,376,950	37,743
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>2,625,663</u>	<u>2,587,386</u>	<u>38,277</u>
Excess of revenues over (under) expenditures	<u>(2,505,807)</u>	<u>(2,466,920)</u>	<u>38,887</u>
Other financing sources (uses):			
Operating transfers in			
Operating transfers out			
Refund of prior year expenditure			
Total other financing sources (uses)			
Excess of revenues and other financing sources over (under) expenditures and other financing (uses).	(2,505,807)	(2,466,920)	38,887
Fund balances, July 1	1,206,161	1,206,161	
Prior year encumbrances appropriated	1,575,398	1,575,398	
Fund balances, June 30	<u>\$275,752</u>	<u>\$314,639</u>	<u>\$38,887</u>

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

Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$1,608,164	\$1,532,825	(\$75,339)
229,761	108,087	(121,674)
71,649	68,503	(3,146)
211,444	93,602	(117,842)
3,760,612	3,665,298	(95,314)
375,269	375,268	(1)
<u>6,256,899</u>	<u>5,843,583</u>	<u>(413,316)</u>
2,877,847	2,824,096	53,751
703,086	654,489	48,597
122,814	89,763	33,051
180,803	178,565	2,238
689,505	597,172	92,333
69,436	58,543	10,893
559,467	547,567	11,900
115,111	105,941	9,170
1,244,855	1,037,743	207,112
307,320	230,860	76,460
3,791	1,047	2,744
10,000	5,226	4,774
147,174	138,916	8,258
2,595,558	2,404,328	191,230
55,000	55,000	
125,000	68,208	56,792
<u>9,806,767</u>	<u>8,997,464</u>	<u>809,303</u>
<u>(3,549,868)</u>	<u>(3,153,881)</u>	<u>395,987</u>
	10,717	10,717
(55,155)	(25,717)	29,438
	52,631	52,631
<u>(55,155)</u>	<u>37,631</u>	<u>92,786</u>
(3,605,023)	(3,116,250)	488,773
3,338,089	3,338,089	
1,848,569	1,848,569	
<u>\$1,581,635</u>	<u>\$2,070,408</u>	<u>\$488,773</u>

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Statement of Revenues, Expenses and Changes in
Retained Earnings/Fund Balance
All Proprietary and Similar Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating revenues:			
Sales/charges for services	\$205,173		\$205,173
Other	6,806	\$2,491	9,297
Investment earnings		673	673
Total operating revenues	<u>211,979</u>	<u>3,164</u>	<u>215,143</u>
Operating expenses:			
Personal services	162,570		162,570
Contract services	5,313		5,313
Materials and supplies	132,768		132,768
Depreciation	300		300
Other	3,440	1,199	4,639
Total operating expenses	<u>304,391</u>	<u>1,199</u>	<u>305,590</u>
Operating income (loss)	<u>(92,412)</u>	<u>1,965</u>	<u>(90,447)</u>
Nonoperating revenues:			
Operating grants	40,855		40,855
Federal commodities	15,006		15,006
Taxes	5,672		5,672
Capital Contributions	170,734		170,734
Interest revenue	288		288
Total nonoperating revenues	<u>232,555</u>		<u>232,555</u>
Net income before operating transfers	140,143	1,965	142,108
Operating transfers in	15,000		15,000
Net income	155,143	1,965	157,108
Retained earnings/fund balance, July 1	13,997	38,514	52,511
Retained earnings/fund balance, June 30	<u>\$169,140</u>	<u>\$40,479</u>	<u>\$209,619</u>

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Statement of Cash Flows
All Proprietary and Similar Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:			
Cash received from sales and service charges	\$205,173		\$205,173
Cash received from other operations	6,806	\$2,451	9,257
Cash payments for personal services	(158,621)		(158,621)
Cash payments for contract services	(5,743)		(5,743)
Cash payments for materials and supplies	(115,880)		(115,880)
Cash payments for other expenses	(1,273)	(1,199)	(2,472)
Net cash provided by (used in) operating activities	<u>(69,538)</u>	<u>1,252</u>	<u>(68,286)</u>
Cash flows from noncapital financing activities:			
Cash received from operating grants	46,236		46,236
Cash received from property and other local taxes	5,731		5,731
Cash received from transfers in	15,000		15,000
Net cash provided by noncapital financing activities	<u>66,967</u>		<u>66,967</u>
Cash flows from investing activities:			
Purchase of Investments		(1,925)	(1,925)
Interest received	288	673	961
Net cash provided by (used in) investing activities	<u>288</u>	<u>(1,252)</u>	<u>(964)</u>
Net increase decrease in cash and cash equivalents	(2,283)		(2,283)
Cash and cash equivalents at beginning of year	<u>28,673</u>		<u>28,673</u>
Cash and cash equivalents at end of year	<u>\$26,390</u>		<u>\$26,390</u>

(Continued)

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Combined Statement of Cash Flows
All Proprietary and Similar Fiduciary Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)**

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	(\$92,412)	\$1,965	(\$90,447)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	300		300
Federal donated commodities	15,006		15,006
Interest reported as operating income		(673)	(673)
Changes in assets and liabilities:			
Increase in accounts receivable		(40)	(40)
Decrease in materials and supplies inventory	2,023		2,023
Increase in accounts payable	3,360		3,360
Decrease in accrued wages and benefits	(26)		(26)
Increase in compensated absences payable	2,730		2,730
Increase in pension obligation payable	736		736
Increase in due to other governments	509		509
Decrease in deferred revenue	(1,764)		(1,764)
Net cash provided by (used in) operating activities	(\$69,538)	\$1,252	(\$68,286)

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Continental Local School District (the District) is located in Putnam County, including the Village of Continental and all or portions of Greensburg, Jackson, Monroe, Palmer, and Perry Townships, and the Villages of Cloverdale and Dupont. The District serves an area of approximately 74 square miles.

The District was organized in 1928, in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 elementary school and 1 comprehensive high school. The District employs 35 non-certified and 63 certified (including administrative) full-time and part-time employees to provide services to approximately 765 students in grades K through 12 and various community groups, which ranks it 554th out of approximately 705 public and community school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert counties, and the cities of St. Marys and Wapakoneta. The 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 school districts.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent school district. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

Vantage Career Center

Vantage Career Center (the Center), is a distinct political subdivision of the State of Ohio established under § 3311.18. The Center operates under the direction of a Board of Education consisting of 11 members appointed from participating school districts in Van Wert, Paulding, Mercer and (a portion of) Putnam Counties. The Center accepts students from the District on a non-tuition basis; however, as a separate legal entity, the Center is not considered to be part of the District.

The District also participates in an insurance group purchasing pool, described in Note 12.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, nonexpendable trust and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds, while nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature, and results of operations are not measured. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual. At June 30, 2002, there were no material accruals for the agency funds.

ACCOUNT GROUPS

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

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

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

C. Measurement Focus/Basis of Accounting

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

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

The modified accrual basis of accounting is followed for governmental and expendable trust 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, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2002, but which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

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

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

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

On the accrual basis of accounting, revenue from nonexchange transactions, such as property taxes, grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met.

D. Budgets

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 amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Putnam County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. 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.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reservation of fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances for enterprise funds are disclosed in Note 13.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including Proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal 2002, investments were limited to certificates of deposit, the State Treasury Asset Reserve of Ohio (STAR Ohio), and no load mutual funds.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as 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.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

Under existing Ohio statutes all investment earnings are assigned to the general fund except for those specifically assigned to another fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$71,203, which includes \$25,547 assigned from other District funds.

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

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

F. Inventory

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

G. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than five years. 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. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed asset account group.

2. Proprietary Funds

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

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and equipment	5 - 20

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

I. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not expendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2002 is presented in Note 5.

J. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at fiscal year-end. Capital contributions in the amount of \$170,734 were received by the enterprise funds in fiscal year 2002.

K. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

termination or retirement. A liability for severance is accrued using the termination method; i.e., an accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

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

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

L. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 60 days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

M. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, prepayments, tax revenue unavailable for appropriation, school bus purchases, and capital maintenance. In addition, although the nonexpendable trust fund uses the total economic resources measurement focus, fund equity is reserved for the amount of the principal endowment, and for available cash from which student scholarship awards will be made. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute. The District set aside funds in excess of the amounts required by Ohio Law for capital maintenance, the amounts in excess of the required reserve are recorded on the accompanying balance sheet as a designation for capital maintenance. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. A fund balance reserve has also been established. See Note 18 for details.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

O. Statement of Cash Flows

In September 1989, GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The District has presented, in Exhibit 5, a statement of cash flows for its Proprietary funds and Nonexpendable Trust fund. For purposes of the statement of cash flows, the District considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

P. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Q. Estimates

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

R. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balance

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

	<u>Deficit Balance</u>
<u>Special Revenue Fund</u>	
Reducing Class Size	\$54

This GAAP-basis deficit will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur. This fund complied with state statute which does not allow for a negative fund balance at year-end.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

B. Compliance

Although there were no funds with deficit cash balances at fiscal year end, the following funds were found to have deficit cash balances sometime during the fiscal year 2002 by a maximum of amounts listed:

<u>Fund</u>	<u>Maximum deficit at anytime throughout FY02</u>
Swimming Pool Fund 013	(\$9,177)
Rotary Fund 014	(2,990)
Middle School Support Fund 018-9415	(1,047)
Prescription Program Fund 024	(8,431)
High School Vocal Fund 200-9400	(6,352)
Title I Fund 572-9001	(3,158)
Title I Fund 572-9002	(2,480)
TLCF Fund 599-9003	(58,112)

Although there were no instances for which expenditures exceeded appropriations at year end, there were 11 instances for which expenditures exceeded appropriations at the fund, function, object legal level of control, prior to year end appropriation modifications, in amounts ranging from \$931 to \$30,413.

NOTE 4 - 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 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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys 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;

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 180 days from the date of purchase in an amount not to exceed 25% percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At year-end, the District had \$125 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

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".

Deposits: At year-end, the carrying amount of the District's deposits was \$352,596 and the bank balance was \$515,779. Of the bank balance:

1. \$101,380 was covered by federal depository insurance; and
2. \$414,399 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could 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 counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name. STAR Ohio and no load money market mutual funds are unclassified investments since they are not evidenced by securities which exist in physical or book entry form.

	Fair Value
Not subject to categorization:	
No Load Mutual Fund	\$103,122
Investment in STAR Ohio	2,014,243
Total investments	\$2,117,365

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 entitled, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$2,424,647	\$45,439
Investments of the cash management pool:		
Investment in STAR Ohio	(2,014,243)	2,014,243
Investment in No Load Mutual Fund	(103,122)	103,122
Certificates of deposit with initial maturity greater than 90 days	45,439	(45,439)
Cash on hand	(125)	
GASB Statement No. 3	\$352,596	\$2,117,365

NOTE 5 - INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers for fiscal year 2002:

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$25,717
Special Revenue Fund:		
Other Grants	\$10,717	
Enterprise Fund:		
Recreation	15,000	
Total	<u>\$25,717</u>	<u>\$25,717</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue, which would otherwise have been collected.

The assessed value upon which the 2001 taxes were collected was \$41,357,994. Agricultural/residential and public utility/minerals real estate represented \$34,311,040 or 83.0% of this total; commercial & industrial real estate represented \$1,959,990 or 4.7% of this total, public utility tangible represented \$2,781,160 or 6.7% of this total and general tangible property represented \$2,305,804 or 5.6% of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$31.00 per \$1,000.00 of assessed valuation for operations, \$3.00 per \$1,000.00 of assessed valuation for debt service, \$1.40 per \$1,000.00 of assessed valuation for permanent improvement, \$.50 per \$1,000.00 of assessed valuation for classroom facilities, and \$.25 per \$1,000.00 of assessed valuation for enterprise recreation.

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

The Putnam County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end. Available tax advances at June 30, 2002, totaled \$51,251 in the general fund, \$8,031 in the debt service fund, \$2,804 in the Permanent Improvements capital projects fund, \$1,253 in the Facilities Maintenance special revenue fund, and \$356 in the Recreation enterprise fund.

NOTE 7 - INCOME TAX

The District levies a voted tax of 1% for general operations on the income of residents and of estates. The tax was effective January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the state. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Taxes receivable reported on the Combined Balance Sheet includes \$168,087 in income tax receivable

NOTE 8 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants (to the extent that eligibility requirements have been met by fiscal year-end). Intergovernmental grants receivable have been presented as "Due from other governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$1,057,135
<u>Special Revenue Funds</u>	
Taxes - current and delinquent	20,800
Accounts	9,489
Due from other governments	31,908
<u>Debt Service Funds</u>	
Taxes - current and delinquent	122,235
<u>Capital Projects Funds</u>	
Taxes - current and delinquent	47,481

NOTE 9 - FIXED ASSETS

The following changes occurred in the general fixed assets account group during the year:

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

	Balance 7/1/01	Additions	Deletions	Balance 6/30/02
Land/improvements	\$66,124	\$294,150	(\$8,926)	\$351,348
Buildings/improvements	2,403,895	14,074,567	(19,109)	16,459,353
Furniture/equipment	1,220,087	471,584	(68,508)	1,623,163
Vehicles	630,705	63,001	(19,761)	673,945
Construction in progress	12,713,274	1,926,186	(14,639,460)	
Total	\$17,034,085	\$16,829,488	(\$14,755,764)	\$19,107,809

The addition to the elementary school and renovations to the high school, were completed in 2002 and removed from construction in progress and reported as addition to buildings.

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$257,834
Less: accumulated depreciation	<u>(71,816)</u>
Net fixed assets	<u><u>\$186,018</u></u>

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years, and in the current year, the District has entered into capitalized leases for the acquisition of computers. The terms of each lease provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for the governmental fund types and expendable trust funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$403,200, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2002 fiscal year totaled \$60,288. This amount is reflected as debt service principal retirement in the general fund. New leases are accounted for as a capital outlay expenditure and other financing source.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2002:

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

General Long-Term Obligations	
Year Ending June 30	Copiers
2003	\$84,768
2004	15,900
2005	15,900
2006	13,250
Total future minimum lease payments	129,818
Less: amount representing interest	(14,315)
Present value of future minimum lease payment	\$115,503

The District does not have capitalized lease obligations after fiscal year 2006.

NOTE 11 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
School Facilities Construction and Improvement Bonds FY 1999				
3.2 - 5.0%	\$1,569,617	\$11,061	\$55,000	\$1,525,678
Compensated Absences Payable	335,789	29,813		365,602
Pension Obligation Payable	35,181	37,896	35,181	37,896
Capital Lease Payable	122,035	53,756	60,288	115,503
Total General Long-Term Obligations	\$2,062,622	\$132,526	\$150,469	\$2,044,679

School Facilities Construction and Improvement Bonds FY 1999 - On March 30, 1999, the School District issued \$1,644,729 in voted general obligation bonds for constructing a building addition and renovating the current facility. The bond issue includes serial and capital appreciation bonds, in the amount of \$1,605,000 and \$39,729, respectively. The bonds were issued for a twenty-three year period, with final maturity in fiscal year 2022. The bonds are being retired through the Bond Retirement debt service fund.

The serial bonds maturing after December 1, 2010, are subject to redemption, at the option of the School District, either in whole or in part, on any interest payment date on or after December 1, 2009, at a redemption price equal to 101 percent and after December 1, 2010 at 100% of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to redemption prior to maturity. The capital appreciation bonds will mature on December 1, 2012 and December 1, 2013, in the amount of \$100,000 each year. For fiscal year 2002, \$11,061 was accreted on the capital appreciation bonds for a total outstanding bond value of the capital appreciation bonds of \$75,678 at fiscal year end.

Compensated absences and pension obligation payable, representing the School District's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid.

The Ohio Revised Code provides that voted net general obligation debt of a school district shall never exceed 9% of the total assessed valuation of the district. The code further provides that unvoted

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

indebtedness shall not exceed 1/10 of 1% of the property valuation of the district. The effects of these debt limitations for the District at June 30, 2002, are a voted debt margin of \$2,341,714 (including available funds of \$145,173 and an unvoted debt margin of \$41,358.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2002, were as follows:

Fiscal Year Ending June 30	General Obligation Bonds		Interest	Total
	Serial	Capital		
2003	\$55,000		\$66,186	\$121,186
2004	60,000		63,985	123,985
2005	60,000		61,615	121,615
2006	60,000		59,185	119,185
2007	65,000		56,606	121,606
2008-2012	365,000		237,927	602,927
2013-2017	265,000	\$200,000	176,625	641,625
2018-2022	520,000		67,000	587,000
Total	<u>\$1,450,000</u>	<u>\$200,000</u>	<u>\$789,129</u>	<u>\$2,439,129</u>

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. During fiscal year 2002, the District contracted with Grange Mutual Casualty Company for property insurance and fleet insurance and with Wausau Business Insurance Company for liability insurance.

Coverages provided by the Districts insurance carriers are as follows:

	<u>Deductible</u>	<u>Coverage</u>
Building and contents - replacement cost	\$1,000	\$24,693,381
Inland marine coverage (musical instruments)	250	44,899
Automobile liability		1,000,000
Uninsured motorists		1,000,000
Medical payments - per person		3,000
General liability:		
Per occurrence		2,000,000
Total per year		5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal 2001.

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the "GRP"), an insurance purchasing pool. The GRP is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The GRP provides the

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

participants with a centralized program for processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The Treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The District offers group medical, dental, and prescription insurances to all employees through Medical Mutual of Ohio. Depending upon the plan chosen, the employees share a portion of the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Regardless of the plan utilized by the employees, all group benefit plans are traditionally funded, and the District does not retain any risk of loss.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food services, uniform school supplies, and recreation. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	Food Services	Uniform School Supplies	Recreation	Total
Total operating revenues	\$188,537		\$23,442	\$211,979
Depreciation expense	300			300
Total operating expenses	252,956	\$8,385	43,050	304,391
Operating loss	(64,419)	(8,385)	(19,608)	(92,412)
Non-operating revenues:				
Operating grants	40,147		708	40,855
Donated federal commodities	15,006			15,006
Tax revenue			5,672	5,672
Interest revenue	288			288
Operating transfers in			15,000	15,000
Net income/(loss)	161,756	(8,385)	1,772	155,143
Current Capital Contributions	170,734			170,734
Net working capital	(6,671)		2,708	(3,963)
Total assets	209,974		17,627	227,601
Total liabilities	42,151		11,310	53,461
Total fund equity	162,823		6,317	169,140
Encumbrances at June 30, 2002	1,600		2,182	3,782

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$38,827, \$24,870, and \$40,460, respectively; 51% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$19,923, which presents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$266,546, \$245,108, and \$157,497, respectively; 82.0% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$47,877, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$126,259 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. 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. 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 \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$78,193 during the 2002 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

	Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	(\$615,689)	(\$52,685)	\$19,044	(\$2,466,920)
Net adjustment for revenue accruals	32,704	85,867	(3,056)	(9,184)
Net adjustment for expenditure accruals	(85,121)	(85,528)		379,646
Net adjustment for other financing sources/(uses)	1,125			
Adjustment for encumbrances	96,576	29,877		103,906
GAAP basis	(\$570,405)	(\$22,469)	\$15,988	(\$1,992,552)

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

As of the balance sheet date, the District is involved in no litigation either as a plaintiff or defendant.

C. School Funding Decision

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

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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.

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund (cash basis) revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	Textbooks	Capital Maintenance	Total
Balance June 30, 2001	(\$26,326)		(\$26,326)
Required set-aside	91,733	\$91,733	183,466
Offset Credit		(61,257)	(61,257)
Qualifying expenditures	(177,863)	(26,346)	(204,209)
Amount Carried Forward to Fiscal Year 2003	(\$112,456)	\$4,130	(\$108,326)
Set Aside Reserve Balance June 30, 2002		\$4,130	\$4,130

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

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

Amount restricted for capital maintenance	\$4,130
Amount restricted for school bus purchase	26,204
Total restricted assets	\$30,334

NOTE 19 - CONTRACTUAL COMMITMENTS

As of June 30, 2002, the District had several outstanding contractual commitments for the school facilities project. These contracts in total of \$97,619 were appropriated from the capital project fund.

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**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Donation Program		10.550
National School Lunch Program		10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies		
	C1-S1-01	84.010
	C1-S1-02	84.010
Total Title I		
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-01	84.186
Eisenhower Professional Development State Grants	MS-S1-01	84.281
Innovative Educational Program Strategies	C2-S1-00	84.298
	C2-S1-01	84.298
	C2-S1-02	84.298
Total Innovative Education Program Strategies		
Technology Literacy Challenge Fund Grant	TF-VM-02	84.318
Class Size Reduction	CR-S1-01	84.340
	CR-S1-02	84.340
Total Class Size Reduction		
School Renovation, IDEA and Technology Grants		84.352A
Total Department of Education		

Totals

The accompanying notes are an integral part of this schedule.

Per speaking with the Treasurer and through review of the District's minutes, 4502, ACTRPT, and grant files - it appears all federal programs have properly reported.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
	\$17,182		\$15,006
\$43,292		\$43,292	
43,292	17,182	43,292	15,006
27,367		27,367	
73,179		59,791	
100,546		87,158	
3,076		3,076	
4,886		4,886	
		2,972	
1,239		613	
1,175			
2,414		3,585	
274,000		271,168	
		689	
27,357		22,008	
27,357		22,697	
2,989		2,989	
415,268		395,559	
\$458,560	\$17,182	\$438,851	\$15,006

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Notes to the Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTNG POLICIES

The accompanying Schedule of Federal Awards Receipts and 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 DONATION AND NATIONAL SCHOOL LUNCH PROGRAM

Non-monetary 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 2002, the District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

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

Continental Local School District
Putnam County
5211 State Route 634
P.O. Box 479
Continental, Ohio 45831-0479

To the Board of Education:

We have audited the financial statements of Continental Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2002-10269-001 and 2002-10269-002. We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 28, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited 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 matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 28, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

This report is intended for the information and use of the audit committee, management, Board of Education, 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

January 28, 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**

Continental Local School District
Putnam County
5211 State Route 634
P.O. Box 479
Continental, Ohio 45831-0479

To the Board of Education:

Compliance

We have audited the compliance of Continental Local School 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 its major federal program for the year ended June 30, 2002. The District's major federal program is 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 its major federal program 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.

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

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

This report is intended for the information and use of the audit committee, management, Board of Education, 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.



Betty Montgomery
Auditor of State

January 28, 2003

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Schedule of Findings
OMB Circular A -133 §.505
June 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(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 noncompliance at the financial statement level (GAGAS)?	Yes
(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):	Technology Literacy Challenge Fund Grant CFDA# 84.318
(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. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2002-10269-001

Noncompliance Citation

Ohio Revised Code § 5705.10 states money paid into any fund shall be used only for the purposes for which the fund was established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. Although there were no funds with deficit balances at fiscal year end, the following funds were found to have deficit balances sometime during the fiscal year 2002 by a maximum of amounts listed:

**FINDING NUMBER 2002-10269-001
 (Continued)**

Fund	Maximum deficit at anytime throughout FY02
Swimming Pool Fund 013	(\$9,177)
Rotary Fund 014	(2,990)
Middle School Support Fund 018-9415	(1,047)
Prescription Program Fund 024	(8,431)
High School Vocal Fund 200-9400	(6,352)
Title I Fund 572-9001	(3,158)
Title I Fund 572-9002	(2,480)
TLCF Fund 599-9003	(58,112)

The District should make transfers or advances from the General Fund or reduce planned expenditures as necessary to avoid deficit balances.

FINDING NUMBER 2002-10269-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated as provided in such chapter.

Although there were no instances for which expenditures exceeded appropriations at year end, the following accounts were found to have expenditures in excess of appropriations prior to year end appropriation modifications:

Fund-Cost Center	Appropriations	Expenditures plus Encumbrances	Difference
006-0000	\$216,923	\$247,336	(\$30,413)
018-9415		2,068	(2,068)
019-9097	90,500	103,934	(13,434)
300-0000	47,261	53,879	(6,618)
432-9092	3,050	4,079	(1,029)
459-0000	12,162	13,093	(931)
499-9002		4,787	(4,787)
584-0000		3,076	(3,076)
599-9003	57,550	75,000	(17,450)
599-9004		11,182	(11,182)
599-9200		3,029	(3,029)

The Treasurer should not issue purchase orders or checks for expenditures that would exceed appropriations. The Treasurer should inform the Board of the insufficiency of appropriations, and whether current resources permit an increase to appropriations. The Board should determine if they wish to increase appropriations and if needed, obtain an amended certificate of estimated resources.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CONTINENTAL LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

**Schedule of Prior Audit Findings
June 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10269-001	ORC § 5705.10 Deficit fund balances	No	Not corrected. This finding has been repeated in this report as finding number 2002-10269-001.
2001-10269-002	ORC § 5705.41(B) Expenditures exceeding appropriations.	No	Not corrected. This finding has been repeated in this report as finding number 2002-10269-002.
2001-10269-003	ORC § 5705.41(D) Certifying expenditures.	Yes	



**Auditor of State
Betty Montgomery**

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CONTINENTAL LOCAL SCHOOL DISTRICT

PUTNAM 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
MARCH 11, 2003**