



**Auditor of State
Betty Montgomery**

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Aurora City School District
Portage County
102 East Garfield Road
Aurora, Ohio 44202

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Aurora City School District, Portage County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Aurora City School District, Portage County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2004, 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.

Aurora City School District
Portage County
Independent Accountant's Report

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and No-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Expenditure Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

January 22, 2004

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

This discussion and analysis of Aurora City School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Since this is the first year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", some analyses with prior year data is not available. Future Management Discussion and Analyses will be comparative.

Financial Highlights

Key financial highlights for 2003 are as follows:

- Net assets of governmental activities increased \$546,718, representing a 13 percent increase from 2002.
- General revenues accounted for \$22,615,605 in revenue or 94 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$1,285,935 or 5 percent of total revenues of \$24,169,446.
- The School District received \$267,906 from the County Auditor as a refund of real estate appraisal fees. This amount is reported as an extraordinary item on the statement of activities.
- The School District had \$23,622,728 in expenses related to governmental activities; only \$1,285,935 of these expenses was offset by program specific charges for services, grants, contributions and interest. General revenues of \$22,615,605 were adequate to provide for these programs.

Using this Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Aurora City School District, the general fund is by far the most significant fund.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and helps answer the question, "How did we do financially during 2003?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting, takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's current property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School Districts' activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

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

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. This is the School District's first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with the prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

Table 1 provides a summary of the School District's net assets for 2003:

Table 1 Net Assets		Governmental <u>Activities</u>
Assets:		
Current and other assets		\$ 25,984,776
Capital assets, net of depreciation		<u>21,097,064</u>
Total assets		<u><u>47,081,840</u></u>
Liabilities:		
Other liabilities		20,018,458
Long-term liabilities:		
Due within one year		727,299
Due in more than one year		<u>21,519,846</u>
Total liabilities		<u><u>42,265,603</u></u>
Net Assets:		
Invested in capital assets, net of debt		236,470
Restricted		2,323,609
Unrestricted		<u>2,256,158</u>
Total net assets		<u><u>\$ 4,816,237</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the School District's assets exceeded liabilities by \$4,816,237.

Capital assets, net of depreciation reported on the government-wide statements represent the largest portion of the School District's total assets, 45 percent for fiscal year 2003. Capital assets include land and land improvements, buildings, equipment and vehicles used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$2,323,609 or 48 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$326,441 or 14 percent is restricted for debt service payment; \$1,887,015, or 81 percent, is restricted for capital projects; and \$5,003, or less than 1 percent, is restricted for permanent fund uses; and another small amount, \$105,150 or 4 percent, is restricted for other purposes. The remaining balance of government-wide unrestricted net assets of \$2,256,158 may be used to meet the government's ongoing obligations to students and staff.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

Table 2 shows net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities
Revenues	
Program revenues:	
Charges for services	\$ 649,900
Operating grants, contributions and interest	603,381
Capital grants and contributions	32,654
General revenues:	
Property taxes	17,224,815
Grants and entitlements	5,026,474
Investment earnings	142,579
Miscellaneous	221,737
Total revenues	23,901,540
Program Expenses	
Instruction:	
Regular	10,124,926
Special	999,244
Vocational	104,309
Other	432,636
Support services:	
Pupils	1,129,196
Instructional staff	1,132,760
Board of education	163,679
Administration	1,704,296
Fiscal	690,254
Business	330,348
Operation and maintenance of plant	2,703,736
Pupil transportation	1,300,126
Central	69,291
Extracurricular activities	601,192
Food service operations	694,769
Interest and fiscal charges	1,441,966
Total expenses	23,622,728
Change in net assts before extraordinary item	278,812
Extraordinary item - refund of real estate appraisal fees	267,906
Increase in net assets	\$ 546,718

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

Governmental Activities

Several revenue sources fund our governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$17.2 million in 2003. General revenues from grants and entitlements, such as the school foundation program, generated over \$5 million. With the combination of taxes and intergovernmental funding comprising approximately 92 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Costs directly related to the instruction of students comprised 49 percent of governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2002 have not been presented since that information is not available.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program Expenses		
Instruction:		
Regular	\$ 10,124,926	\$ (9,880,427)
Special	999,244	(937,083)
Vocational	104,309	(104,309)
Other	432,636	(432,636)
Support services:		
Pupils	1,129,196	(1,092,070)
Instructional staff	1,132,760	(1,013,309)
Board of education	163,679	(163,679)
Administration	1,704,296	(1,666,687)
Fiscal	690,254	(690,254)
Business	330,348	(330,348)
Operation and maintenance of plant	2,703,736	(2,703,736)
Pupil transportation	1,300,126	(1,267,472)
Central	69,291	(59,336)
Extracurricular activities	601,192	(449,877)
Food service operations	694,769	(103,604)
Interest and fiscal charges	1,441,966	(1,441,966)
Total expenses	<u>\$ 23,622,728</u>	<u>\$ (22,336,793)</u>

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$24,423,156 and total expenditures and other financing uses were \$26,157,532. Although the total governmental fund balance decreased by (\$1,466,470), the School District continues to be financially stable with a total governmental fund balance of \$5,870,400 at year-end. The net decrease in fund balance for the year was significant in the general fund, amounting to \$1,119,729, or 24 percent. Net changes across all other governmental funds amounted to (\$346,741), or 13 percent decrease. The decreases in fund balance in the general can be attributed to significant transfers made to other governmental funds and subsequently spent in those funds. The general fund transferred \$605,000 to the building capital projects fund to provide funding for the completion of certain building contracts. The completion of these projects in the building fund resulted in the net decrease of the total governmental funds.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During fiscal year 2003, the School District amended its general fund budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$20,668,356, which was higher than the original budget estimate of \$19,044,227. Much of this \$1,624,129 difference was due to conservative estimates for grant awards and other intergovernmental sources, the exact amounts of which are unknown during the original budgeting process. Those estimates must be increased during the year as the awards are finalized.

The original expenditures estimate of \$20,840,222 was revised significantly over the fiscal year. Actual expenditures were \$22,615,614, or \$1,775,392 more than originally anticipated. The 8.5 percent increase from the original budget was due mainly from non-routine purchases including capital items used for instruction.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$21,097,064 invested in land and land improvements, buildings, equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to fiscal year 2002:

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$ 2,025,550	\$ 2,025,550
Land improvements	203,100	140,607
Buildings	16,933,836	9,974,120
Furniture, fixtures and equipment	961,556	897,636
Vehicles	973,022	1,024,665
Construction in progress	-	5,502,734
Total capital assets	<u>\$ 21,097,064</u>	<u>\$ 19,565,312</u>

The \$6,959,716 increase in buildings is a reflection of the reclassification of prior year construction in progress coupled with the completion of entire building projects during the year. These construction projects were completed during fiscal year 2003, resulting in a zero balance in construction in progress at year-end. Otherwise, depreciation largely offset capital acquisitions in the other asset classes. See Note 7 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2003 the School District had \$20,860,594 in bonds outstanding with \$515,593 due within one year. This balance reflected a reduction of \$522,398, or 2 percent, from the previous year's balance of \$21,382,992. Table 5 summarizes the bonds outstanding:

Table 5
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
School Improvement Bonds	\$ 9,590,594	\$ 9,847,992
Certificates of Participation	11,270,000	11,535,000
Total outstanding debt	<u>\$ 20,860,594</u>	<u>\$ 21,382,992</u>

During fiscal year 1995, the School District issued \$12,268,180 in bonds, the proceeds of which were used to renovate, remodel, furnish and otherwise improve the Aurora High School. During fiscal year 2000, the School District issued Certificates of Participation in the amount of \$12,000,000 and simultaneously entered into a trust and lease agreement to make payments on the Certificates. The proceeds of this issue were used mainly for the construction of a new elementary school. The School District has budgeted to meet all of the School District's debt requirements. See Note 11 to the basic financial statements for additional information regarding the School District's debt.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDED JUNE 30, 2003
UNAUDITED**

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. See Note 14 to the basic financial statements for more on this contingent matter.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions or need additional financial information, contact Chuck Maruniak, Treasurer, at Aurora City School District, 102 East Garfield Road, Aurora OH, 44202.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 6,525,790
Cash and cash equivalents:	
In segregated accounts	926,799
Receivables:	
Taxes	18,444,953
Accounts	15,200
Intergovernmental	60,888
Inventory held for resale	10,326
Materials and supplies inventory	820
Capital assets:	
Land	2,025,550
Depreciable capital assets, net	19,071,514
Total capital assets	21,097,064
Total assets	47,081,840
<u>Liabilities:</u>	
Accounts payable	123,428
Accrued wages	1,465,315
Intergovernmental payable	726,095
Accrued interest payable	121,425
Deferred revenue	17,582,195
Long-term liabilities:	
Due within one year	727,299
Due in more than one year	21,519,846
Total liabilities	42,265,603
<u>Net assets:</u>	
Invested in capital assets, net of related debt	236,470
Restricted for:	
Capital projects	1,887,015
Debt service	326,441
Permanent fund purpose - scholarships	
Expendable	155
Nonexpendable	4,848
Other purposes	105,150
Unrestricted	2,256,158
Total net assets	\$ 4,816,237

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Revenue and Changes in Net Assets
Governmental Activities:					
Instruction:					
Regular	\$ 10,124,926	\$ 191,175	\$ 53,324	\$ -	\$ (9,880,427)
Special	999,244	-	62,161	-	(937,083)
Vocational	104,309	-	-	-	(104,309)
Other	432,636	-	-	-	(432,636)
Support services:					
Pupils	1,129,196	-	37,126	-	(1,092,070)
Instructional staff	1,132,760	1,265	118,186	-	(1,013,309)
Board of education	163,679	-	-	-	(163,679)
Administration	1,704,296	-	37,609	-	(1,666,687)
Fiscal	690,254	-	-	-	(690,254)
Business	330,348	-	-	-	(330,348)
Operation and maintenance of plant	2,703,736	-	-	-	(2,703,736)
Pupil transportation	1,300,126	-	-	32,654	(1,267,472)
Central	69,291	-	9,955	-	(59,336)
Extracurricular activities	601,192	91,487	59,828	-	(449,877)
Food service operations	694,769	365,973	225,192	-	(103,604)
Interest and fiscal charges	1,441,966	-	-	-	(1,441,966)
Totals	23,622,728	649,900	603,381	32,654	(22,336,793)

General Revenues:

Property taxes levied for:

General purposes	15,644,618
Debt service	981,843
Capital outlay	598,354
Grants and entitlements not restricted to specific programs	5,026,474
Investment earnings	142,579
Miscellaneous	221,737

Total general revenues 22,615,605

Extraordinary item - refund of real estate appraisal fees 267,906

Total general revenues, contributions and extraordinary item 22,883,511

Change in net assets 546,718

Net assets beginning of year - restated (See Note 2) 4,269,519

Net assets end of year \$ 4,816,237

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,245,900	\$ 1,627,619	\$ 5,873,519
Cash and cash equivalents:			
In segregated accounts	-	926,799	926,799
Receivables:			
Taxes	16,837,522	1,607,431	18,444,953
Accounts	15,200	-	15,200
Intergovernmental	11,638	49,250	60,888
Interfund	178,513	-	178,513
Inventory held for resale	-	10,326	10,326
Materials and supplies inventory	-	820	820
Equity in pooled cash and cash equivalents (restricted)	652,271	-	652,271
Total assets	21,941,044	4,222,245	26,163,289
Liabilities:			
Accounts payable	\$ 113,319	\$ 10,109	\$ 123,428
Accrued wages	1,446,547	18,768	1,465,315
Interfund payable	-	178,513	178,513
Intergovernmental payable	505,409	7,966	513,375
Deferred revenue	16,418,161	1,594,097	18,012,258
Total liabilities	18,483,436	1,809,453	20,292,889
Fund balances:			
Reserved:			
Reserved for encumbrances	1,102,870	238,019	1,340,889
Reserved for textbooks and instructional materials	219,822	-	219,822
Reserved for bus purchases	172,194	-	172,194
Unreserved,			
Designated for budget stabilization	260,255	-	260,255
Undesignated, reported in:			
General fund	1,702,467	-	1,702,467
Special revenue funds	-	(14,655)	(14,655)
Debt service fund	-	429,445	429,445
Capital projects fund	-	1,754,980	1,754,980
Permanent fund	-	5,003	5,003
Total fund balances	3,457,608	2,412,792	5,870,400
Total liabilities and fund balances	\$ 21,941,044	\$ 4,222,245	\$ 26,163,289

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003**

Total governmental funds balances		\$ 5,870,400
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,097,064
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 385,376	
Intergovernmental	44,687	
Total	430,063	430,063
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds.		(212,720)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (20,860,594)	
Compensated absences	(1,386,551)	
Accrued interest payable	(121,425)	
Total	(22,368,570)	(22,368,570)
Net assets of governmental activities		\$ 4,816,237

See accompanying notes to the basic financial statements.

AURORA CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNEMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General	All Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 15,546,337	\$ 1,577,357	\$ 17,123,694
Intergovernmental	4,876,385	663,566	5,539,951
Interest	121,450	21,129	142,579
Tuition and fees	167,333	6,091	173,424
Extracurricular activities	-	110,503	110,503
Gifts and donations	-	72,808	72,808
Charges for services	-	365,973	365,973
Rent	53,396	-	53,396
Miscellaneous	123,195	30,702	153,897
Total revenues	<u>20,888,096</u>	<u>2,848,129</u>	<u>23,736,225</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	10,543,240	70,792	10,614,032
Special	875,432	114,664	990,096
Vocational	97,052	-	97,052
Other	432,636	-	432,636
Support services:			
Pupils	1,099,388	23,017	1,122,405
Instructional staff	1,016,883	110,489	1,127,372
Board of education	163,530	-	163,530
Administration	1,908,551	37,109	1,945,660
Fiscal	659,864	25,460	685,324
Business	292,009	-	292,009
Operation and maintenance of plant	2,379,291	168,331	2,547,622
Pupil transportation	1,254,250	-	1,254,250
Central	-	69,291	69,291
Operation of food services	-	610,381	610,381
Extracurricular activities	398,262	144,950	543,212
Capital outlay	-	1,012,211	1,012,211
Debt service:			
Principal retirement	265,000	257,398	522,398
Interest and fiscal charges	204,270	1,236,850	1,441,120
Total expenditures	<u>21,589,658</u>	<u>3,880,943</u>	<u>25,470,601</u>
Excess of revenues over (under) expenditures	<u>(701,562)</u>	<u>(1,032,814)</u>	<u>(1,734,376)</u>
<u>Other financing sources (uses):</u>			
Transfers in	-	686,931	686,931
Transfers out	(686,073)	(858)	(686,931)
Total other financing sources (uses)	<u>(686,073)</u>	<u>686,073</u>	<u>-</u>
<u>Extraordinary item:</u>			
Refund of real estate appraisal fees	267,906	-	267,906
Net change in fund balances	(1,119,729)	(346,741)	(1,466,470)
Fund balances beginning of year - restated (See Note 2)	4,577,337	2,759,533	7,336,870
Fund balances end of year	<u>\$ 3,457,608</u>	<u>\$ 2,412,792</u>	<u>\$ 5,870,400</u>

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds \$ (1,466,470)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	\$ 2,571,137	
Depreciation expense	(1,005,871)	
Excess of capital asset additions over depreciation expense		1,565,266

The disposal of capital assets results in the removal of capital assets at cost and the difference in their carrying value to cost, if immaterial, is charged to the program as an expense in the statement of activities. (33,514)

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

Property taxes	\$ 101,121	
Intergovernmental	31,532	
Miscellaneous	10,672	
Net change in deferred revenues during the year		143,325

Repayment of debt and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 522,398

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

Increase in compensated absences	\$ (140,500)	
Increase in pension obligation	(42,941)	
Increase in accrued interest	(846)	
Total additional expenditures		(184,287)

Change in net assets of governmental activities \$ 546,718

See accompanying notes to the basic financial statements.

AURORA CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET (NON GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 15,336,263	\$ 15,336,263	\$ 15,336,263	\$ -
Intergovernmental	2,850,933	4,876,385	4,876,385	-
Interest	228,406	121,450	121,450	-
Tuition and fees	314,696	167,333	167,333	-
Rent	100,420	53,396	53,396	-
Miscellaneous	213,509	113,529	113,529	-
Total revenues	<u>19,044,227</u>	<u>20,668,356</u>	<u>20,668,356</u>	<u>-</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	9,490,303	10,516,969	10,516,969	-
Special	635,106	849,194	849,194	-
Vocational	71,761	93,055	93,055	-
Other	843,450	898,511	898,511	-
Support services:				
Pupils	1,001,599	1,110,728	1,110,728	-
Instructional staff	1,134,150	1,122,129	1,122,129	-
Board of education	191,716	216,426	216,426	-
Administration	1,752,248	1,933,500	1,933,500	-
Fiscal	651,907	662,247	662,247	-
Business	417,128	333,493	333,493	-
Operation and maintenance of plant	2,397,588	2,572,314	2,572,314	-
Pupil transportation	1,315,963	1,397,445	1,397,445	-
Extracurricular activities	468,033	440,333	440,333	-
Debt service:				
Principal retirement	265,000	265,000	265,000	-
Interest and fiscal charges	204,270	204,270	204,270	-
Total expenditures	<u>20,840,222</u>	<u>22,615,614</u>	<u>22,615,614</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(1,795,995)</u>	<u>(1,947,258)</u>	<u>(1,947,258)</u>	<u>-</u>
<u>Other financing sources (uses):</u>				
Proceeds from the sale of capital assets	-	20	20	-
Refund of prior year expenditures	-	278,128	278,128	-
Advances in	-	757,362	757,362	-
Advances out	(300,000)	(178,513)	(178,513)	-
Transfers in	-	8,565	8,565	-
Transfers out	-	(694,638)	(694,638)	-
Total other financing sources (uses)	<u>(300,000)</u>	<u>170,924</u>	<u>170,924</u>	<u>-</u>
Net change in fund balance	(2,095,995)	(1,776,334)	(1,776,334)	-
Fund balances at beginning of year	4,346,486	4,346,486	4,346,486	-
Prior year encumbrances appropriated	1,140,222	1,140,222	1,140,222	-
Fund balances at end of year	<u>\$ 3,390,713</u>	<u>\$ 3,710,374</u>	<u>\$ 3,710,374</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003**

	Private Purpose Trusts	Agency
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 10,774	\$ 86,460
Total assets	10,774	\$ 86,460
 <u>Liabilities:</u>		
Accounts payable	\$ -	\$ 2,575
Due to students	-	83,885
Total liabilities	-	\$ 86,460
 <u>Net assets:</u>		
Held in trust for scholarships	10,774	
Total net assets	\$ 10,774	

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Private Purpose Trusts
<u>Additions:</u>	
Gifts and Contributions	\$ 100
Interest	147
Total additions	247
 <u>Deductions:</u>	
Payments in accordance with trust agreements	65
Change in net assets	182
Net assets, beginning of year - restated (See Note 2)	10,592
Net assets, end of year	\$ 10,774

See accompanying notes to the basic financial statements.

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**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Aurora City School District (the School District) operates under the direction of a locally elected five-member Board of Education as Ohio state law prescribes. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The board controls the School District's four instructional/support facilities, which are staffed by 97 non-certificated employees, 212 certificated full-time teaching employees and 9 administrative employees. These personnel provide services to approximately 2,718 students and other community members.

The predecessor to the Aurora City School District was established in 1898 when a system of neighborhood one-room schoolhouses in the then-agrarian community was consolidated into a unified school district, which approximately encompasses the boundaries of what now is the city of Aurora. Historical records indicate that a system of public education in Aurora dates back as far as 1804. Members of the Board of Education are elected at large and serve staggered four-year terms and are required to be registered voters of the district under Ohio law.

The Aurora City School District serves a geographic area of approximately twenty-five square miles. It encompasses all of the City of Aurora in northwestern Portage County and a small portion of Summit County within the Village of Reminderville. The School District operates two elementary schools, one middle school and one comprehensive high school. The School District also provides a variety of vocational educational programs for high-school students through a regional vocational education consortium.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Aurora City School District, this includes general operations, food service, preschool and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations' governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

Aurora City School District Leasing Corporation During fiscal year 2000, Aurora City School District Leasing Corporation was formed to issue Certificates of Participation for the purpose of constructing a new elementary school in accordance with Ohio Revised Code 3313.375. The School District will make lease payments to the Corporation for the life of the issuance, after which time it will take ownership of the building. The Leasing Corporation is governed by a three member board appointed by the School District. Although the Leasing Corporation is a separate legal entity, the School District's financial statements include activity pertaining to the Certificates of Participation as a blended component unit of the School District since the debt was issued on behalf of the School District. The Leasing Corporation has assigned its duties to a Trustee to handle the finances.

Within the boundaries of the Aurora City School District, Valley Christian Academy is operated as a private school. State legislation provides funding to this private school. The School District receives the money and then disburses the money as directed by the private school. The accounting for the monies is reflected in a special revenue fund of the School District.

The School District is associated with the Stark Portage Area Computer Consortium and the Portage County School Consortium which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 13.

B. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

C. Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulation, restrictions or limitations.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The general fund is the School District's only major fund:

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

Fiduciary Fund Types:

Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four categories: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust fund, which accounts for several scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets and liabilities associated with the operation of the School District are included on the statement of net assets.

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

The private purpose trust fund is reported using the economic resources measurement focus.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The private purpose trust fund and the agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (should not include delinquent) for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants and Contributions" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

E. Budgetary Data

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 Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when original appropriations were adopted. The amounts reported as the final budgeted revenue budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board of Education during the year.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central corporate bank account in which individual fund balance integrity is maintained through School District records. Each funds' interest in the pool is presented on the basic financial statements in the account, "Equity in pooled cash and cash equivalents". All deposits into the corporate bank account are invested in repurchase agreements of government-backed securities under terms of the School District's corporate account management agreement with the custodian bank. The corporate account itself always is maintained at a zero balance. As checks are presented to the bank for payment, the exact amount of each check is withdrawn from the repurchase agreement to honor the checks presented to the bank. The purpose of this method of short-term cash management is to maximize the School District's short-term investment earnings.

Cash not required to meet the immediate financial obligations of the district is invested in an investment pool operated under the auspices of the Treasurer of the State of Ohio as provided for by Ohio law so that the district can maximize its investment earnings. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds or federal grants, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in the Building capital projects fund.

The District invested funds in STAR Ohio during fiscal year 2003. 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 Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

G. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Inventories of the general and food service special revenue fund are stated at cost, which is determined on first in, first out basis. Inventory in the general fund consist of expendable supplies held for consumption. Inventories in the food service fund consist of donated food, purchased food, and supplies held for resale. Inventories reported on the fund financial statements are expended when used.

H. Capital Assets and Depreciation

General capital assets are those assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. It is the policy of the School District to not capitalize interest costs incurred as part of construction.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset description</u>	<u>Estimated lives</u>
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	10 years

I. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the purchase of textbooks, for the purchase of school buses, and to create a designation for budget stabilization. The set aside amounts for budget stabilization is now optional as determined by the School District. See Note 15 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves and designations.

J. Short-term Interfund Assets/Liabilities

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

L. Accrued Liabilities and Long-term Obligations

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

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

M. Interfund Transactions

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statements of net assets.

N. Fund Balance Reserves and Designations

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

Designated fund balance represents planned actions for monies set-aside by the School District for budget stabilization and purchase of school buses.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

P. 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.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. See Note 17 for additional information.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements No. 37 or No. 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting, and reclassification of funds based on guidance provided by GASB Statement No. 34. Due to these reclassifications, there is no business type activities reported.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability of compensated absences that had not matured during fiscal year 2002.

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B. Restatement of Fund Balance

The restatements for GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balances, June 30, 2002	\$ 4,503,710	\$ 2,859,281	\$ 7,362,991
Fund Reclassifications	52,585	(99,748)	(47,163)
Implementation of GASB Interpretation No. 6			
Compensated Absences	<u>21,042</u>	<u>-</u>	<u>21,042</u>
Adjusted fund balances, June 30, 2002	<u>\$ 4,577,337</u>	<u>\$ 2,759,533</u>	7,336,870
GASB Statement No. 34 Adjustments:			
Capital assets			19,565,312
Long-term debt			(21,382,992)
Long-term liabilities			(1,246,051)
Intergovernmental payable - full accrual			(169,779)
Accrued interest			(120,579)
Long-term (deferred) assets			286,738
Governmental activities net assets, June 30, 2002			<u>\$ 4,269,519</u>

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$ (1,119,729)
Revenue accruals	556,429
Expenditure accruals	(25,238)
Encumbrances (Budget Basis) outstanding at year end	<u>(1,187,796)</u>
Budget Basis	<u>\$ (1,776,334)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim deposits may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above 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); and

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7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Protection of the School 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 monies deposited with the institution.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

The carrying value of the School District's deposits and petty cash of \$200 totaled (\$260,112) and the bank balances of the deposits totaled \$9,144. The School District maintains a "zero balance" account for each of their checking accounts. Money is credited to their checking account from a repurchase account that is linked to those accounts as checks are presented.

Investments:

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School District's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School 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 School 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 School District's name.

The School District's investment in STAR Ohio is an unclassified investment since it is not evidence by securities that exist in physical or book entry form.

All interest is legally required to be placed in the general fund, the building capital projects fund, the food service special revenue fund, and the Scholarship private purpose trust fund. Due to these provisions, interest revenue credited to the general fund during fiscal year 2003 amounted to \$121,450, which includes \$23,705 assigned from other funds.

	<u>Category 3</u>	<u>Fair value</u>
<u>Categorized investments</u>		
Repurchase agreements	\$ <u>2,280,176</u>	2,280,176
<u>Noncategorized investments</u>		
State Treasurer's Pool		<u>5,529,559</u>
Total investments		<u>\$ 7,809,735</u>

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NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000 for the following tax year. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Portage and Summit Counties. The County Auditor and Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30 are available to finance current year operations. The School District, by resolution, authorizes the Treasurer to request advances from the County Auditor and Fiscal Officer during the year and to make these funds available for appropriation.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$430,999 in the general fund, \$18,156 in the permanent improvement capital projects fund, and \$28,227 in the bond retirement debt service fund and is recognized as revenue.

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There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2002 Assessed Value</u>	<u>2001 Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 378,379,900	\$ 330,922,841
Commercial and Industrial	87,469,010	82,635,638
Public Utilities	26,380	33,790
<u>Tangible Personal Property</u>		
General	44,850,462	39,688,210
Public Utilities	11,868,980	11,953,181
Total	<u>\$ 522,594,732</u>	<u>\$ 465,233,660</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition), intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. The intergovernmental receivable at June 30, consisted of:

<u>Governmental activities</u>	<u>Amount</u>
General fund	\$ 11,638
Special revenue funds:	
Title VIB	25,447
Title VI	3,026
Drug Free Schools	6,117
Preschool Grant for the Handicapped	1,485
Title II-A	13,175
	<u>\$ 60,888</u>

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NOTE 7 - CAPITAL ASSETS

The capital asset balances of the governmental activities have been restated due to fund reclassifications and the increase of the capitalization threshold from \$500 to \$2,000. See Note 2 for details.

<u>Governmental activities</u>	Balance <u>June 30, 2002</u>	<u>Adjustments</u>	Restated Balance <u>June 30, 2002</u>
Land	\$ 2,025,550	\$ -	\$ 2,025,550
Construction in progress	5,676,318	(173,584)	5,502,734
Land improvements	141,822	2,599	144,421
Buildings	30,589,539	(5,569,830)	25,019,709
Furniture and equipment	4,616,346	(2,650,564)	1,965,782
Vehicles	1,829,900	128,881	1,958,781
Less: Accumulated depreciation	<u>(150,689)</u>	<u>(16,900,976)</u>	<u>(17,051,665)</u>
Total	<u>\$ 44,728,786</u>	<u>\$ (25,163,474)</u>	<u>\$ 19,565,312</u>

Capital asset activity for the fiscal year ended June 30, 2003 was as follows:

<u>Governmental activities</u>	Restated Balance <u>June 30, 2002</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 2,025,550	\$ -	\$ -	\$ 2,025,550
Construction in progress	<u>5,502,734</u>	<u>-</u>	<u>(5,502,734)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>7,528,284</u>	<u>-</u>	<u>(5,502,734)</u>	<u>2,025,550</u>
Capital assets, being depreciated:				
Land improvements	144,421	73,383	-	217,804
Buildings	25,019,709	7,620,677	(29,152)	32,611,234
Furniture and equipment	1,965,782	267,879	(39,420)	2,194,241
Vehicles	<u>1,958,781</u>	<u>111,932</u>	<u>(78,306)</u>	<u>1,992,407</u>
Total capital assets, being depreciated	<u>29,088,693</u>	<u>8,073,871</u>	<u>(146,878)</u>	<u>37,015,686</u>
Less: Accumulated depreciation				
Land improvements	(3,814)	(10,890)	-	(14,704)
Buildings	(15,045,589)	(660,961)	29,152	(15,677,398)
Furniture and equipment	(1,068,146)	(170,445)	5,906	(1,232,685)
Vehicles	<u>(934,116)</u>	<u>(163,575)</u>	<u>78,306</u>	<u>(1,019,385)</u>
Total accumulated depreciation	<u>(17,051,665)</u>	<u>(1,005,871)</u>	<u>113,364</u>	<u>(17,944,172)</u>
Total capital assets being depreciated, net	<u>12,037,028</u>	<u>7,068,000</u>	<u>(33,514)</u>	<u>19,071,514</u>
Governmental activities capital assets, net	<u>\$ 19,565,312</u>	<u>\$ 7,068,000</u>	<u>\$ (5,536,248)</u>	<u>\$ 21,097,064</u>

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Depreciation expense charged to governmental functions for the year ending June 30, 2003 is as follows:

Instruction:	
Regular	\$ 376,256
Special	16,394
Vocational	6,086
Support services:	
Pupils	4,257
Instructional staff	121,675
Administration	58,953
Fiscal	2,311
Business	16,483
Operation and maintenance of plant	141,029
Pupil transportation	149,540
Food service operations	57,111
Extracurricular activities	55,776
	<u>\$ 1,005,871</u>

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. General liability is insured up to \$1,000,000 per occurrence to \$3,000,000 in the aggregate, with deductibles up to \$2,500. Property is insured from \$1,000,000 to \$63,928,400 with deductibles up to \$500. Public officials bonds are \$50,000 for the Treasurer and \$20,000 for board members. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years,

The School District has joined the Portage County School Consortium for property and general liability insurance and for health insurance of the School District's employees. The Portage County School Consortium was established in 1981 so that thirteen educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverages as a group. The consortium has organized into two distinct entities to facilitate its risk management operations; the two entities are the Property and Casualty Insurance Pool and the Health and Welfare Trust. The Property and Casualty Insurance Pool functions to manage the member districts' physical property and liability risks and the Health and Welfare Trust is to facilitate the management of risks associated with providing employee benefits, coverages such as health and accident insurance, disability insurance and life insurance. The School District participates in both insurance pools. The consortium, to facilitate the operation of the Health and Welfare Trust, retains a third-party administrator. The School District pays all insurance premiums directly to the consortium. Although the School District does not participate in the day-to-day management of the consortium, one administrator serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. The School District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

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NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll, which includes 8.17 percent for pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$277,621, \$165,947, and \$166,704, respectively; 45 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount \$170,407, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a combined plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers both the DC and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate of 14 percent of annual covered payroll, which includes 13 percent for pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,392,062, \$916,305, and \$857,199, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount \$241,414, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2003 were \$11,301 made by the School District and \$20,906 made by the plan members.

NOTE 10 - POSTEMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to 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. The retirement board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$107,082 during the 2003 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.011 billion at June 30, 2002, (latest information available). For the year ended June 30, 2002, the net health care costs paid by the STRS were \$354,697,000 and eligible benefit recipients totaled 105,300.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. For this fiscal year, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$252,250, which includes a surcharge of \$54,143 during the 2003 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 the SERS's net assets available for payment of health care benefits was \$303.6 million. The number of participants receiving health care benefits was approximately 50,000.

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NOTE 11 - LONG-TERM DEBT

Changes in long-term obligations of the School District during fiscal year 2003 were as follows:

<u>Governmental activities</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Due in</u> <u>one year</u>
<u>Bonds</u>					
School Improvement Bonds, 4.7-5.8% maturing on December 1, 2017	\$ 9,847,992	\$ -	\$ (257,398)	\$ 9,590,594	\$ 235,593
Certificates of Participation 3.9-6.15% maturing on December 1, 2025	11,535,000	-	(265,000)	11,270,000	280,000
Total bonds	<u>21,382,992</u>	<u>-</u>	<u>(522,398)</u>	<u>20,860,594</u>	<u>515,593</u>
<u>Other obligations</u>					
Long-term compensated absences	1,246,051	295,896	(155,396)	1,386,551	211,706
Total other obligations	<u>1,246,051</u>	<u>295,896</u>	<u>(155,396)</u>	<u>1,386,551</u>	<u>211,706</u>
Governmental activities long-term liabilities	<u>\$ 22,629,043</u>	<u>\$ 295,896</u>	<u>\$ (677,794)</u>	<u>\$ 22,247,145</u>	<u>\$ 727,299</u>

School Improvement Bonds - During the year ended June 30, 1995, the School District issued bonds for the principal amount of \$12,268,180 to pay the costs of renovating, remodeling, furnishing and improving the Aurora High School. The repayment of the debt is from property tax revenue received in the bond retirement debt service fund.

Certificates of Participation - During fiscal year 2000, the School District entered into a lease agreement for \$12,000,000 with the Aurora City School District Leasing Corporation for a new elementary school. The lease is an annual lease subject to renewal for twenty-five years through December 1, 2025

The Leasing Corporation entered an agreement with a trustee through which it assigned and transferred rights and interest under the lease to Huntington National Bank as Trustee. The Trustee issued Certificates of Participation in the lease agreement enabling holders of the Certificates to receive a portion of the semiannual lease payments. Proceeds from the issuance are mainly being used to construct a new elementary school. In addition, terms of the trust indenture require a portion of the proceeds to be set aside for current and future certificate payments. The current certificate payment account is used to account for resources accumulated for payment over the next twelve months. The reserve account is used solely to make rent payments if a deficiency exists in the current certificate payment account and, if all payments are current, to make payment of the last certificate payments.

The obligation of the School District under the lease and any subsequent lease renewal is subject to annual appropriation of the rental payments. Legal title to the facilities remains with the Leasing Corporation until all payments required under the lease have been made. At that time, title will transfer to the School District.

The liability for the Certificates is payable from resources from the debt service fund. The Certificates of Participation are not a general obligation of the School District but are payable only from appropriations by the School District for annual lease payments.

Compensated absences will be paid from the fund the person is paid from.

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The annual requirements to amortize these debt obligations are as follows:

<u>Governmental Activities</u>			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 515,593	\$ 1,450,725	\$ 1,966,318
2005	800,000	1,154,873	1,954,873
2006	840,000	1,113,224	1,953,224
2007	885,000	1,068,475	1,953,475
2008	930,000	1,020,478	1,950,478
2009-2013	5,480,000	4,246,974	9,726,974
2014-2018	6,220,000	2,442,490	8,662,490
2019-2023	3,480,000	1,085,445	4,565,445
2024-2025	<u>1,710,001</u>	<u>106,702</u>	<u>1,816,703</u>
Total	<u>\$ 20,860,594</u>	<u>\$ 13,689,386</u>	<u>\$ 34,549,980</u>

NOTE 12 - INTERFUND TRANSACTIONS

Interfund balances at year end consist of the following individual fund receivables and payables:

<u>Receivable fund</u>	<u>Payable nonmajor funds</u>	<u>Total</u>
General	<u>\$ 178,513</u>	<u>\$ 178,513</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2003, all interfund loans outstanding are anticipated to be repaid in fiscal year 2004.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers for the year ended June 30, 2003, consisted of the following:

<u>Transfers to</u>	<u>Transfers from</u>		<u>Totals</u>
	<u>General fund</u>	<u>Nonmajor funds</u>	
Nonmajor funds	<u>\$ 686,073</u>	<u>\$ 858</u>	<u>\$ 686,931</u>

The School District transferred \$80,927 from the general fund to the management information system special revenue fund for additional technology services. \$605,000 was transferred from the general fund to building capital projects funds to cover liabilities.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC) is the computer service organization or Data Acquisition Site (DAS) used by the School District. SPARCC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All School Districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs SPARCC. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund. During the fiscal year, the School District contributed \$26,624 to SPARCC.

Portage County School Consortium is an insurance group-purchasing consortium made up of 13 school districts in Portage County. All member districts pay an insurance premium directly to the consortium. The School District paid \$2,182,295 in the form of health care premiums to the consortium for the current fiscal year.

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

The School District is not involved in any litigation at this time.

C. School Funding

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

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 15 - STATUTORY RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and an amount for the acquisition and construction of capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, Senate Bill 345 amended Ohio Revised Code 5705.29 effectively eliminating the requirement for the School District to establish and maintain a budget stabilization reserve. Monies previously reported in the budget stabilization reserve are now reported as designated and reserved fund equity in the general fund. As of June 30, 2003, the Board had not acted on the Senate Bill to eliminate the reserve balance.

During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Textbook reserve</u>	<u>Capital improvement reserve</u>	<u>Budget stabilization reserve</u>	<u>Total</u>
Set-aside cash balance as of June 30, 2002	\$ 333,579	\$ -	\$ 44,706	\$ 378,285
Current year set-aside requirement	348,946	348,946	-	697,892
Current year offset	-	-	-	-
Qualifying disbursements	<u>(462,703)</u>	<u>(2,240,874)</u>	<u>(44,706)</u>	<u>(2,748,283)</u>
Total	<u>\$ 219,822</u>	<u>\$ (1,891,928)</u>	<u>\$ -</u>	<u>\$ (1,672,106)</u>
Restricted cash	<u>\$ 219,822</u>			<u>\$ 219,822</u>

The School District has designated \$260,255 for textbooks and instructional materials and \$172,194 for school bus acquisitions in addition to the amount listed above.

NOTE 16 - ACCOUNTABILITY

As of June 30, 2003 several funds had deficit fund balances. These deficits were caused by the application of general accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following fund had a deficit at year-end:

<u>Fund</u>	<u>Deficit</u>
Special Revenue	
Food Service	\$ 105,325
Education of Handicapped Children	13,283
Drug Free School Grant	2,656
Preschool Grant for the Handicapped	1,411

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 17 – EXTRAORDINARY ITEM

During the fiscal year, the Portage County Auditor returned monies to subdivisions within the County. These monies represent a return of unneeded funds for the sexennial reappraisal (most recent year was 2000) of the County's local real estate values. The School District's distribution amount totaled \$267,906. This amount is reported as an extraordinary item within the fund and government-wide financial statements, as this is only the second time in Portage County history that a return of these types of funds has been issued.

AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$22,544		\$20,340
National School Lunch Program	LLP4-2002	10.555	\$13,460		\$13,460	
	LLP4-2003		37,517		37,517	
Total U.S. Department of Agriculture - Nutrition Cluster			50,977	22,544	50,977	20,340
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	6BSF-2002P	84.027	82,005		89,583	
	6BSF-2003P		153,526		164,400	
Total Special Education Grants to States			235,531		253,983	
Special Education - Preschool Grants	PGS1-2002P	84.173			3,696	
	PGS1-2003P		4,023		5,434	
Total Special Education - Preschool Grant			4,023		9,130	
Total Special Education Cluster			239,554		263,113	
Eisenhower Professional Development State Grants	MS1-2001	84.281			344	
	MS1-2002				2,495	
Total Eisenhower Professional Development State Grants			-		2,839	
Title I Grants to Local Educational Agencies	C1S1-2002	84.010	27,875		27,875	
Innovative Educational Program Strategies	C2S1-2001	84.298	(54)			
	C2S1-2002		9,635		10,493	
	C2S1-2003		13,871		15,412	
Total Innovative Education Program Strategies			23,452		25,905	
Safe and Drug Free Schools and Communities	DRS1-2002	84.186	8,032		13,925	
	DRS1-2003		1,343		3,999	
Total Safe and Drug Free Schools and Communities			9,375		17,924	
Class Size Reduction	CRS1-2001	84.340	(5)			
	CRS1-2002		16,362		16,419	
Total Class Size Reduction			16,357		16,419	
Improving Teacher Quality State Grants	TRS1-2003	84.367	27,182		39,332	
Total Department of Education			343,795		393,407	
Totals			\$394,772	\$22,544	\$444,384	\$20,340

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the United States 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 and local receipts. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Aurora City School District
Portage County
102 East Garfield Road
Aurora, Ohio 44202

To the Board of Education:

We have audited the basic financial statements of the Aurora City School District, Portage County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 22, 2004, wherein we noted the District adopted GASB Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 22, 2004.

Internal Control Over Financial Reporting

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

Aurora City School District
Portage County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

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 22, 2004



**Auditor of State
Betty Montgomery**

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

Aurora City School District
Portage County
120 East Garfield Road
Aurora, Ohio 44202

To the Board of Education:

Compliance

We have audited the compliance of the Aurora City School District, Portage County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. 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 each of 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, 2003.

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. However, we noted a matter involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 22, 2004.

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

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 22, 2004

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education – Grants to States CFDA# 84.027 and Preschool Grants CFDA# 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	\$300,000
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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800-282-0370

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AURORA CITY SCHOOL DISTRICT

PORTAGE 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 4, 2004**