



**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2003 & 2002



**Auditor of State
Betty Montgomery**

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
General Purpose Financial Statements – June 30, 2003	4
Notes to the General Purpose Financial Statements – June 30, 2003	11
General Purpose Financial Statements – June 30, 2002	30
Notes to the General Purpose Financial Statements – June 30, 2002	37
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	57
Schedule of Findings	59

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Fairport Harbor Exempted Village School District
Lake County
329 Vine Street
Fairport Harbor, Ohio 44077

We have audited the accompanying general-purpose financial statements of the Fairport Harbor Exempted Village School District, Lake County, Ohio, (the District) as of and for the years ended June 30, 2003 and June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fairport Harbor Exempted Village School District, Lake County, Ohio, as of June 30, 2003 and June 30, 2002 and the results of its operations, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 12, 2003

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FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

COMBINED BALANCE SHEET
All Fund Types and Account Groups
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Equity in pooled cash and cash equivalents	\$ 263,957	\$ 162,151	\$ -	\$ 48,631
Restricted cash and cash equivalents	28,321	-	-	-
Cash with fiscal agents	124,503	-	-	-
Receivables:				
Taxes	2,053,614	-	-	74,130
Delinquent taxes	145,702	-	-	4,318
Accounts	4,520	-	-	-
Intergovernmental	-	193	-	-
Interest	612	-	-	-
Interfund receivable	7,165	-	-	-
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-
Amount to be provided from general government resources	-	-	-	-
Total Assets	2,628,394	162,344	-	127,079
LIABILITIES				
Accounts payable	103,730	-	-	7,459
Accrued wages and benefits	384,868	-	-	-
Compensated absences payable	-	-	-	-
Pension obligation payable	65,857	-	-	-
Interfund payable	-	-	-	-
Due to other governments	9,582	438	-	-
Deferred revenue	1,853,194	-	-	65,800
Due to students	-	-	-	-
Claims payable	57,613	-	-	-
Notes payable	-	-	-	320,000
Total Liabilities	2,474,844	438	-	393,259
FUND EQUITY AND OTHER CREDITS				
Investment in general fixed assets	-	-	-	-
Fund balance:				
Reserved for encumbrances	111,393	15,239	-	-
Reserved for property taxes	346,463	-	-	12,648
Reserved for budget stabilization	28,321	-	-	-
Unreserved:				
Designated claims	57,613	-	-	-
Undesignated	(390,240)	146,667	-	(278,828)
Total Fund Equity and Other Credits	153,550	161,906	-	(266,180)
Total Liabilities, Fund Equity and Other Credits	\$ 2,628,394	\$ 162,344	\$ -	\$ 127,079

See accompanying notes to the general purpose financial statements

Fiduciary Fund Types	Account Groups		Total
Trust and Agency	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$ 31,875	\$ -	\$ -	\$ 506,614
-	-	-	28,321
-	-	-	124,503
-	-	-	2,127,744
-	-	-	150,020
-	-	-	4,520
-	-	-	193
9	-	-	621
-	-	-	7,165
-	2,161,433	-	2,161,433
-	-	336,975	336,975
<u>31,884</u>	<u>2,161,433</u>	<u>336,975</u>	<u>5,448,109</u>
-	-	-	111,189
-	-	-	384,868
-	-	306,149	306,149
-	-	30,826	96,683
7,165	-	-	7,165
-	-	-	10,020
-	-	-	1,918,994
7,616	-	-	7,616
-	-	-	57,613
-	-	-	320,000
<u>14,781</u>	<u>-</u>	<u>336,975</u>	<u>3,220,297</u>
-	2,161,433	-	2,161,433
-	-	-	126,632
-	-	-	359,111
-	-	-	28,321
-	-	-	57,613
<u>17,103</u>	<u>-</u>	<u>-</u>	<u>(505,298)</u>
<u>17,103</u>	<u>2,161,433</u>	<u>-</u>	<u>2,227,812</u>
<u>\$ 31,884</u>	<u>\$ 2,161,433</u>	<u>\$ 336,975</u>	<u>\$ 5,448,109</u>

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
All Governmental Fund Types and Similar Trust Funds
For the Year Ended June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>REVENUES:</u>				
Taxes	\$ 2,081,614	\$ -	\$ -	\$ 78,344
Intergovernmental	1,670,184	262,345	-	9,579
Interest	9,861	-	-	-
Tuition and Fees	781,398	-	-	-
Extracurricular Activities	-	27,749	-	-
Classroom Materials and Fees	12,949	-	-	-
Miscellaneous	10,531	28,067	-	1,710
Total Revenues	4,566,537	318,161	-	89,633
<u>EXPENDITURES:</u>				
Instruction:				
Regular	2,255,869	86,826	-	5,050
Special	355,788	39,660	-	-
Vocational	94,537	-	-	-
Other	229,780	-	-	-
Support Services:				
Pupils	131,845	26,230	-	-
Instructional Staff	68,181	16,286	-	-
Board of Education	22,236	-	-	-
Administration	556,639	14,971	-	-
Fiscal	158,452	2,304	-	627
Business	23,422	-	-	-
Operation and Maintenance of Plant	580,874	-	-	50,618
Pupil Transportation	66,740	-	-	-
Central	9,669	8,448	-	-
Operation of Non-Instructional Services	6,796	-	-	-
Extracurricular Activities	145,558	48,023	-	-
Capital Outlay	73,480	8,102	-	-
Debt Service:				
Interest and Fiscal Charges	-	-	15	7,665
Total Expenditures	4,779,866	250,850	15	63,960
Excess of Revenues Over/(Under) Expenditures	(213,329)	67,311	(15)	25,673
<u>Other Financing Sources/(Uses):</u>				
Refund of Prior year receipts	-	193	-	-
Refund of Prior year expenditures	4,210	-	-	-
Operating Transfer In	-	15,461	-	6,478
Operating Transfer Out	(21,939)	-	-	-
Total Other Financing Sources/(Uses)	(17,729)	15,654	-	6,478
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(231,058)	82,965	(15)	32,151
Fund Balance/(Deficit) - July 1 as Restated see note 21	384,608	78,941	15	(298,331)
Fund Balance/(Deficit) - June 30	\$ 153,550	\$ 161,906	\$ -	\$ (266,180)

See accompanying notes to the general purpose financial statements

Fiduciary Trust Fund Expendable Trust	Total (Memorandum Only)
\$ -	\$ 2,159,958
-	1,942,108
76	9,937
-	781,398
-	27,749
-	12,949
<u>13,200</u>	<u>53,508</u>
13,276	4,987,607
-	2,347,745
-	395,448
-	94,537
-	229,780
-	158,075
-	84,467
-	22,236
-	571,610
-	161,383
-	23,422
-	631,492
-	66,740
-	18,117
2,000	8,796
-	193,581
-	81,582
<u>-</u>	<u>7,680</u>
<u>2,000</u>	<u>5,096,691</u>
11,276	(109,084)
-	193
-	4,210
-	21,939
<u>-</u>	<u>(21,939)</u>
<u>-</u>	<u>4,403</u>
11,276	(104,681)
<u>5,827</u>	<u>171,060</u>
<u>\$ 17,103</u>	<u>\$ 66,379</u>

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP Budget Basis)
All Governmental Fund Types and Similar Trust Fund
For the Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
<u>REVENUES:</u>						
Taxes	\$ 2,127,955	\$ 2,127,955	\$ -	\$ -	\$ -	\$ -
Tuition	781,398	781,398	-	-	-	-
Interest	10,322	10,322	-	-	-	-
Extracurricular Activities	-	-	-	27,749	27,749	-
Classroom Materials and Fees	11,992	12,549	557	-	-	-
Intergovernmental	1,670,184	1,670,184	-	262,704	262,704	-
Miscellaneous	6,941	6,941	-	27,995	28,066	71
Total Revenues	4,608,792	4,609,349	557	318,448	318,519	71
<u>EXPENDITURES:</u>						
Instruction:						
Regular	2,239,269	2,225,228	14,041	113,910	87,101	26,809
Special	373,737	371,279	2,458	46,161	39,749	6,412
Vocational Education	96,419	94,099	2,320	-	-	-
Other Instruction	269,221	268,739	482	-	-	-
Support Services:						
Pupils	134,274	132,263	2,011	33,057	26,896	6,161
Instructional Support	77,014	70,714	6,300	22,526	16,286	6,240
Board of Education	24,150	22,247	1,903	-	-	-
Administration	568,645	558,552	10,093	20,983	14,923	6,060
Fiscal	175,849	160,409	15,440	2,500	2,295	205
Business	24,000	23,472	528	-	-	-
Operation and Maintenance of Plant	571,538	561,103	10,435	-	-	-
Pupil Transportation	105,000	101,741	3,259	-	-	-
Central	10,100	9,182	918	10,702	8,487	2,215
Operation of Non-instructional Services	8,000	6,814	1,186	217	-	217
Extracurricular Activities	160,290	147,827	12,463	54,373	49,798	4,575
Capital Outlay	9,545	9,080	465	108,149	20,200	87,949
Debt Service:						
Principal Payments	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-
Total Expenditures	4,847,051	4,762,749	84,302	412,578	265,735	146,843
Excess of Revenues Over/ (Under) Expenditures	(238,259)	(153,400)	84,859	(94,130)	52,784	146,914
<u>Other Financing Sources/(Uses):</u>						
Transfers In	-	-	-	15,461	15,461	-
Transfers Out	(22,000)	(21,939)	61	-	-	-
Advance In	29,925	29,925	-	-	-	-
Advance Out	(7,500)	(7,165)	335	(19,200)	(19,200)	-
Refund of Prior Year Receipts	-	-	-	-	-	-
Refund of Prior Year Expenditures	4,209	4,210	1	193	193	-
Total Other Financing Sources/(Uses)	4,634	5,031	397	(3,546)	(3,546)	-
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(233,625)	(148,369)	85,256	(97,676)	49,238	146,914
Fund Balance/(Deficit) July 1	228,767	228,767	-	91,721	91,721	-
Prior Year Encumbrances Appropriated	96,011	96,011	-	5,955	5,955	-
Fund Balance/(Deficit) June 30	\$ 91,153	\$ 176,409	\$ 85,256	\$ -	\$ 146,914	\$ 146,914

See accompanying notes to the general purpose financial statements

Debt Service Funds			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
\$ -	\$ -	\$ -	\$ 78,764	\$ 78,764	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	68	68	-
-	-	-	-	-	-	-	-	-
-	-	-	9,579	9,579	-	-	-	-
-	-	-	1,660	1,710	50	13,200	13,200	-
-	-	-	90,003	90,053	50	13,268	13,268	-
-	-	-	5,050	5,050	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,000	-	1,000	-	-	-
-	-	-	1,000	627	373	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	86,233	50,375	35,858	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	9,094	2,000	7,094
-	-	-	-	-	-	-	-	-
15	15	-	320,000	320,000	-	-	-	-
-	-	-	7,664	7,664	-	-	-	-
15	15	-	420,947	383,716	37,231	9,094	2,000	7,094
(15)	(15)	-	(330,944)	(293,663)	37,281	4,174	11,268	7,094
-	-	-	6,478	6,478	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	(4,500)	(4,500)	-	-	-	-
-	-	-	320,000	320,000	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	321,978	321,978	-	-	-	-
(15)	(15)	-	(8,966)	28,315	37,281	4,174	11,268	7,094
15	15	-	9,782	9,782	-	5,826	5,826	-
-	-	-	3,320	3,320	-	-	-	-
\$ -	\$ -	\$ -	\$ 4,136	\$ 41,417	\$ 37,281	\$ 10,000	\$ 17,094	\$ 7,094

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP Budget Basis)
All Governmental Fund Types and Similar Trust Fund
For the Year Ended June 30, 2003

	Total - (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
<u>REVENUES:</u>			
Taxes	\$ 2,206,719	\$ 2,206,719	\$ -
Tuition	781,398	781,398	-
Earnings on Investments	10,390	10,390	-
Extracurricular Activities	27,749	27,749	-
Classroom Materials and Fees	11,992	12,549	557
Intergovernmental	1,942,467	1,942,467	-
Miscellaneous	49,796	49,917	121
	5,030,511	5,031,189	678
 <u>EXPENDITURES:</u>			
Instruction:			
Regular	2,358,229	2,317,379	40,850
Special	419,898	411,028	8,870
Vocational Education	96,419	94,099	2,320
Other Instruction	269,221	268,739	482
Support Services:			
Pupils	167,331	159,159	8,172
Instructional Support	99,540	87,000	12,540
Board of Education	24,150	22,247	1,903
Administration	590,628	573,475	17,153
Fiscal	179,349	163,331	16,018
Business	24,000	23,472	528
Operation and Maintenance of Plant	657,771	611,478	46,293
Pupil Transportation	105,000	101,741	3,259
Central	20,802	17,669	3,133
Operation of Non-instructional Services	17,311	8,814	8,497
Extracurricular Activities	214,663	197,625	17,038
Capital Outlay	117,694	29,280	88,414
Debt Service:			
Principal Payments	320,015	320,015	-
Interest and Fiscal Charges	7,664	7,664	-
	5,689,685	5,414,215	275,470
Excess of Revenues Over/ (Under) Expenditures	(659,174)	(383,026)	276,148
 <u>Other Financing Sources/(Uses):</u>			
Transfers In	21,939	21,939	-
Transfers Out	(22,000)	(21,939)	61
Advance In	29,925	29,925	-
Advance Out	(31,200)	(30,865)	335
Sale and Loss of Assets	320,000	320,000	-
Refund of Prior Year Expenditures	4,402	4,403	1
	323,066	323,463	397
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(336,108)	(59,563)	276,545
Fund Balance/(Deficit) July 1	336,111	336,111	-
Prior Year Encumbrances Appropriated	105,286	105,286	-
Fund Balance/(Deficit) June 30	\$ 105,289	\$ 381,834	\$ 276,545

See accompanying notes to the general purpose financial statements

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 – Description of the School District

The Fairport Harbor Exempted Village School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is located in Fairport Harbor, Ohio, Lake County. The School District operates under a locally elected five member Board and provides educational services as mandated by State or federal agencies. The Board controls the School District's two instructional facilities, staffed by 13 classified personnel, 40 certificated teaching personnel and 3 administrative employees to provide services to 573 students and other community members. The School District operates one elementary school (K-6), and one high school (7-12).

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the 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 the Fairport Harbor Exempted Village School District, this includes general operations and student related activities of the School District.

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

The School District is associated with five (5) jointly governed organizations, a related organization, a public entity risk pool, and a shared risk pool. These organizations are the East Shore Center, East Shore Regional Transportation System, the Auburn Career Center, the Lake Geauga Computer Association, the Ohio School Council, the Fairport Harbor Public Library, the Ohio Schools Council Workers' Compensation Group Rating Program, and the Lake County Council of Governments Health Care Benefits Program. These organizations are presented in Notes 15, 16, 17 and 18 to the general purpose financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentations – Fund Accounting

The School District uses funds and account groups 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.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

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

Governmental Fund Types Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Project Funds: Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Types Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. The School District's agency fund is purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations.

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

General Fixed Assets Account Group: This account group is used to account for all fixed assets of the School District.

General Long-Term Obligations Account Group: This account group is used to account for all long-term obligations of the School District.

B. Measurement Focus and Basis of Accounting

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

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. 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 the modified accrual basis, the revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal 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. (See Note 6) 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.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxes (available in the County Auditor's Office), interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2003, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2003 operations, have been recorded as deferred revenue.

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

C. 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 legal level of budgetary control is at the object level within each function for the general fund and the fund level for all other funds. Any budgetary modification at this level may only be made by resolution of the Board of Education.

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

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Estimated Resources: Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

Appropriations: Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions for the general fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

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

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

D. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2003, the School District's investments were limited to STAROhio, the State Treasurer's Investment Pool. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of The Investment Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$9,861 and \$76 to expendable trust fund.

The School District participates in the Lake County Council of Governments Health Care Benefits Program insurance consortium for medical claims processing. These monies are held separate from the School District's central bank account and are reflected on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents". The Mentor Exempted City School District serves as fiscal agent for the insurance consortium.

For purpose of the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

E. Inventory

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost of inventory items are recorded as an expenditure in the governmental funds types when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the general fund included unexpended revenues restricted for the amount required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 20 for additional information.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School District does not have any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Improvements are capitalized over the remaining useful lives of fund fixed assets. Assets in the general fixed assets account group are not depreciated.

H. Interfund Assets and Liabilities

Receivables and Payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

I. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Transactions

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

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

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. Undesignated fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventory, property taxes, and for budget stabilization. The reserve for taxes represents property taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents cash that has been set aside as required by State statute to protect against cyclical changes in revenues and expenditures. Fund balance in the general fund includes a designation that represents the amount of money the School District has set-aside for future claim payments.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

Note 3 – Compliance and Accountability

A. Fund Deficit

The following fund had a deficit fund balance at June 30, 2003:

	<u>Deficit Fund Balance</u>
Capital Projects Fund:	
Permanent Improvement	\$270,365

The capital project fund deficit balance resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

B. Compliance

The District was in violation of Ohio Revised Code Section 5705.41 (B)(D) which prohibits a subdivision or taxing unit from having an expenditure plus encumbrance exceeding appropriations, in various general fund line items and other special revenue funds.

Note 4 – Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses All Governmental Fund Types					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budget Basis	(\$148,369)	\$49,238	\$(15)	\$28,315	\$1,268
Net Adjustments:					
Revenue Accruals	(72,737)	(358)	0	(320,420)	10,008
Expenditure Accruals	105,918	49,324	0	324,256	0
Encumbrances	(115,870)	(15,239)	0	0	0
GAAP Basis	(\$231,058)	\$82,965	\$(15)	\$32,151	\$11,276

Note 5 – 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 two-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 accounts including passbook accounts.

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

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

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuance's of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).

Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty (180) days in an amount not to exceed twenty five percent (25%) of the interim monies available for investment at any one time, and under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific 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.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits

At the fiscal year end, the carrying amount of the School District's deposits was \$8,737 and the bank balance was \$22,146. All of the bank balance, is covered by Federal Depository Insurance.

Cash With Fiscal Agent

At the fiscal year end, the School District had \$124,503 in self-insurance monies, which is included on the balance sheet of the School District.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Investments

GASB statement 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered, or for which securities are held by the School District or its agent in the School District's name. Category 2 included uninsured and unregistered investments which securities are held by the counter-party'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 counter-party, or by its trust department or agent but not in the School District's name.

The School District has investments in the State Treasurer's Investment Pool (STAR OHIO) at June 30, 2003 in the amount of \$526,210, this particular investment is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$659,438	\$0
Money held by Fiscal Agent	(124,503)	0
Investments:		
STAR Ohio	(526,210)	526,210
GASB Statement 3	\$8,725	\$526,210

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance at June 30, 2003, was \$346,463 in the general fund and \$12,648 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2002, was \$405,531. \$392,463 was available to the general fund and \$13,068 was available to the capital projects fund.

On a modified accrual basis, collectible delinquent property taxes have been deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections	2003 First Half Collections
Residential/Agricultural and Other Real Estate	\$45,253,910	\$47,534,350
Public Utility Personal	3,580,620	3,108,880
General Personal Property	4,271,761	4,245,181
Total Valuation	\$53,106,293	\$54,888,411
Tax Rate per \$1,000 Assessed Value	<u>\$75.23</u>	<u>\$75.12</u>

Note 7 – Receivables

Receivables at June 30, 2003, consisted of taxes (both current and delinquent)(Note 6), accounts, intergovernmental, and interfund loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 8 – Fixed Assets

The following is a summary of changes in General Fixed Assets:

	Balance 07/01/02	Additions	Deductions	Balance 6/30/03
Land and Buildings	\$1,433,636	\$0	\$0	\$1,433,636
Vehicles	5,600	0	0	5,600
Furniture and Equipment	701,271	20,926	0	722,197
Total	\$2,140,507	\$20,926	\$0	\$2,161,433

Note 9 – Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Nationwide Insurance Company for its professional liability coverage. This coverage has a \$1,000,000 single occurrence and \$3,000,000 annual aggregate with no deductible.

The vehicular fleet is protected by Nationwide Insurance Company with \$50 deductible for comprehensive and \$250 deductible for collision. Fleet liability has a combined single limit of \$2,000,000.

The Boiler and Machinery insurance is provided by Nationwide-Harcum/Hyre Insurance Agency. Boiler and Machinery limits are \$100,000 with \$1,000 deductible. Crime insurance is purchased through Love Insurance and is provided by Reliance National Insurance. The Property and Casualty insurance is purchased through Love Insurance and is provided by Reliance National Insurance.

Settled claims have not exceeded this commercial coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

B. Medical Benefits

The School District has contracted with the Lake County Schools Council of Governments (LCSC) to provide employee health and medical benefits since 1995. The LCSC is a shared risk pool comprised of eleven Lake County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The LCSC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

The LCSC has stop loss coverage of 110% of expected claims. The District's share of the claims liability was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 10, which requires that a liability for unpaid claims cost, including estimates of cost related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Should contributions prove to be insufficient to pay program costs of the insurance program for any fiscal year, each participating member may be notified of the deficiency and can be billed for its share of the additional cost.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Changes in the claims liability amount were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$59,505	\$389,685	\$391,577	\$57,613
2002	60,079	304,787	305,361	59,505

The June 30, 2003 claims liability and cash with fiscal agent are determined based on the percentage of the School District's participants to total pool participants. For the year ended June 20, 2003 the pools cash reserves and claims liability were \$5,990,506 and \$2,772,079 respectively. The Schools Districts allocated pool percentage for the year ended June 30, 2003 was 2.1 percent, which represents \$124,503 and \$57,613 of pool cash reserves and claims liabilities.

C. Workers' Compensation

For Fiscal Year 2003, the School District participated in the Ohio Schools Council Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The school districts apply for participation each year. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 10 – Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws.

B. Sick Leave

Each full time Certificated and Non-Certificated employee is entitled to fifteen (15) days sick leave with pay for each year under contract and accrues sick leave at a rate of one and one-fourth (1¼) days for each calendar month under contract. Sick leave can be accumulated up to three hundred (300) days. For the purpose of severance payment calculation, the School District negotiated agreement reflects that payment shall be based on twenty percent (20%) of the first one hundred fifty (150) days of accumulated sick days, twenty five percent (25%) of the next forty (40) days, and thirty three and one-third percent (33 1/3%) of all remaining accumulated days. The School District has a recorded liability of \$306,149 for sick leave payable at June 30, 2003 for Governmental Fund Types, in accordance with GASB no. 16 "Accounting for Compensated Absences". The amount has been recorded in the General Long-Term Obligations Account Group because it is expected that current financial resources will not be utilized to pay these long-term obligations.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

C. Vacation Leave

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 25 days. A detail scale is contained within the negotiated agreement pertaining to vacation earnings. Employees are permitted to carry over unused vacation earnings into the next fiscal year. Accumulated vacation shall not exceed the number of vacation days, which could be accumulated in two (2) years. The School District has recorded a liability of \$6,834 for vacation leave payable at June 30, 2003 for Governmental Fund Types, in accordance with GASB no. 16 "Accounting for Compensated Absences". The amount has been recorded in the General Long Term Debt Account Group.

Note 11 – Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations.

The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, 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 \$22,956, \$29,387, \$ and \$20,285, respectively; 61 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$215,317, \$221,757, and \$175,362 respectively; 94 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$3,497 made by the School District and \$3,098 made by the plan members. \$12,425 represents the unpaid contribution for fiscal year 2003 and \$53,432 represents the contributions for July and August of fiscal year 2004 which are recorded as a liability within the general fund.

Note 12 – Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has authority over how much, if any, of the health costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$23,152 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS has 105,300 eligible benefit recipients.

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

After the allocation for basis benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$34,635 during the 2003 fiscal year.

Note 13 – Notes Payable

The School District's note activity, including amounts outstanding and interest rates, is as follows:

	Balance at 6/30/02	Additions	Deletions	Balance at 6/30/03
<u>Capital Projects Fund</u>				
HB 264 Project - 4.25%	\$320,000	\$320,000	(\$320,000)	\$320,000

Note 14 – Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding at 6/30/02	Additions	Deletions	Principal Outstanding at 6/30/03
Pension Obligation Payable	\$31,039	\$0	\$213	\$30,826
Compensated Absences	285,998	\$20,151	0	306,149
	<u>\$317,037</u>	<u>\$20,151</u>	<u>\$213</u>	<u>\$336,975</u>

Compensated absences and pension obligation payable will be paid from the fund from which the employees are paid.

The School District's overall debt margin was \$4,939,957 with an unvoted debt margin of \$54,888 at June 30, 2003.

Note 15 – Jointly Governed Organizations

A. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

B. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school district. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. ESRTS is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

C. Auburn Career Center

The Auburn Career Center is a joint vocational School District that is a jointly governed organization among eleven School Districts. Each participating School District appoints one member to the Auburn Career Center's Board of Education. The students of each participating School District may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

D. Lake/Geauga Computer Association

The Lake/Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member School Districts. Each of the School Districts support LGCA based upon a per pupil charge. The Executive Committee (governing board) consists of the superintendents and treasurers of the member School Districts. The degree of control exercised by any participating School District is limited to its representation on the governing board. LCGA's continued existence is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8221 Auburn Road, Painesville, Ohio 44077.

E. Ohio Schools Council

The Ohio Schools' Council (the "Council") is a jointly governed organization among its eighty-three member School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member School Districts. Each School District supports the Council by paying a one-time fee of \$500 and an annual participation fee. The Council's Board consists of seven (7) superintendents of the participating School Districts whose term rotates every year. During Fiscal Year 2003, the School District paid \$750 to the Council. The degree of control exercised by any School District is limited to its representation on the Board. Financial information can be obtained by contacting the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio, 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows School District to purchase electricity at reduced rates, if the School District will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June, the Council compares the estimated usage to the actual usage and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating School Districts are not obligated in any manner for this debt. If a participating School District terminates its agreement of participation, that School District is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts committed to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contribution to the operating fund, which are not encumbered for its share of program administrative costs.

Note 16 – Related Organization

The Fairport Harbor Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fairport Harbor Exempted School District's Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Fairport Harbor Public Library, Linda Hofer, Clerk/Treasurer, at 335 Vine Street, Fairport Harbor, Ohio, 44077.

Note 17 – Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

Note 18 – Health Care Benefits Risk Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance – The School District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a shared risk pool, comprised of eleven members. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors.

Note 19 - Contingencies

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 20 – Set-Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of workers' compensation refunds continues to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance as of June 30, 2001	(\$49,446)	\$0	\$28,321
Current year set-aside requirement	95,444	95,444	0
Qualifying Disbursements	(101,365)	(159,568)	0
Totals	<u>(55,367)</u>	<u>(64,124)</u>	<u>\$28,321</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(55,367)</u>	<u>0</u>	<u>28,321</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$28,321</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$28,321. The general fund balance includes \$28,321 that has been designated for the amount of set-asides in excess of requirements.

Note 21 - State School Funding Decision

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

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

COMBINED BALANCE SHEET
All Fund Types and Account Groups
June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Equity in pooled cash and cash equivalents	\$ 296,457	\$ 97,674	\$ 15	\$ 13,101
Restricted cash and cash equivalents	28,321	-	-	-
Cash with fiscal agents	124,829	-	-	-
Receivables:				
Taxes	1,963,773	-	-	75,153
Delinquent taxes	103,595	-	-	3,747
Accounts	203	-	-	-
Intergovernmental	-	551	-	-
Interest	1,073	-	-	-
Interfund receivable	29,925	-	-	-
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-
Amount available in debt service fund	-	-	-	-
Amount to be provided from general government resources	-	-	-	-
Total Assets	2,548,176	98,225	15	92,001
LIABILITIES				
Accounts payable	13,280	-	-	-
Accrued wages and benefits	342,055	-	-	-
Compensated absences payable	6,527	-	-	-
Pension obligation payable	60,594	-	-	-
Interfund payable	-	19,200	-	4,500
Due to other governments	13,229	84	-	-
Deferred revenue	1,674,905	-	-	65,832
Due to students	-	-	-	-
Claims payable	59,505	-	-	-
Notes payable	-	-	-	320,000
Total Liabilities	2,170,095	19,284	-	390,332
FUND EQUITY AND OTHER CREDITS				
Investment in general fixed assets	-	-	-	-
Fund balance:				
Reserved for encumbrances	86,850	5,953	-	3,320
Reserved for property taxes	392,463	-	-	13,068
Reserved for debt service	-	-	15	-
Reserved for budget stabilization	28,321	-	-	-
Unreserved:				
Designated claims	59,505	-	-	-
Undesignated	(189,058)	72,988	-	(314,719)
Total Fund Equity and Other Credits	378,081	78,941	15	(298,331)
Total Liabilities, Fund Equity and Other Credits	\$ 2,548,176	\$ 98,225	\$ 15	\$ 92,001

See accompanying notes to the general purpose financial statements

Fiduciary Fund Types	Account Groups		Total
Trust and Agency	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$ 33,627	\$ -	\$ -	\$ 440,874
-	-	-	28,321
-	-	-	124,829
-	-	-	2,038,926
-	-	-	107,342
-	-	-	203
-	-	-	551
-	-	-	1,073
-	-	-	29,925
-	2,140,507	-	2,140,507
-	-	15	15
-	-	317,022	317,022
<u>33,627</u>	<u>2,140,507</u>	<u>317,037</u>	<u>5,229,588</u>
-	-	-	13,280
-	-	-	342,055
-	-	285,998	292,525
-	-	31,039	91,633
6,225	-	-	29,925
-	-	-	13,313
-	-	-	1,740,737
21,575	-	-	21,575
-	-	-	59,505
-	-	-	320,000
<u>27,800</u>	<u>-</u>	<u>317,037</u>	<u>2,924,548</u>
-	2,140,507	-	2,140,507
-	-	-	96,123
-	-	-	405,531
-	-	-	15
-	-	-	28,321
-	-	-	59,505
5,827	-	-	(424,962)
<u>5,827</u>	<u>2,140,507</u>	<u>-</u>	<u>2,305,040</u>
<u>\$ 33,627</u>	<u>\$ 2,140,507</u>	<u>\$ 317,037</u>	<u>\$ 5,229,588</u>

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
All Governmental Fund Types and Similar Trust Funds
For the Year Ended June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>REVENUES:</u>				
Taxes	\$ 2,220,120	\$ -	\$ -	\$ 82,148
Intergovernmental	1,480,484	210,835	-	9,539
Interest	30,606	-	-	-
Tuition and Fees	570,275	-	-	-
Extracurricular Activities	16	21,553	-	-
Classroom Materials and Fees	12,678	-	-	-
Miscellaneous	20,222	29,213	-	2,144
Total Revenues	4,334,401	261,601	-	93,831
<u>EXPENDITURES:</u>				
Instruction:				
Regular	2,069,162	72,788	-	795
Special	181,476	38,919	-	-
Vocational	90,956	-	-	-
Other	212,553	-	-	-
Support Services:				
Pupils	187,306	61,665	-	12,000
Instructional Staff	111,068	20,378	-	-
Board of Education	13,041	-	-	-
Administration	508,393	30,810	-	-
Fiscal	171,997	-	-	845
Business	22,012	-	-	-
Operation and Maintenance of Plant	535,705	-	-	99,028
Pupil Transportation	89,619	-	-	-
Central	7,045	8,505	-	-
Operation of Non-Instructional Services	7,883	-	-	-
Extracurricular Activities	152,095	39,994	-	-
Capital Outlay	9,359	-	-	22,211
Debt Service:				
Interest and Fiscal Charges	-	-	-	15,300
Total Expenditures	4,369,670	273,059	-	150,179
Excess of Revenues Over/(Under) Expenditures	(35,269)	(11,458)	-	(56,348)
<u>Other Financing Sources/(Uses):</u>				
Operating Transfer In	-	-	-	55,000
Operating Transfer Out	(55,000)	-	-	-
Total Other Financing Sources/(Uses)	(55,000)	-	-	55,000
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(90,269)	(11,458)	-	(1,348)
Fund Balance/(Deficit) - July 1	469,776	90,399	15	(296,983)
Increase (Decrease) in Reserved for Inventory	(1,426)	-	-	-
Fund Balance/(Deficit) - June 30	\$ 378,081	\$ 78,941	\$ 15	\$ (298,331)

See accompanying notes to the general purpose financial statements

Fiduciary Trust Fund Expendable Trust	Total (Memorandum Only)
\$ -	\$ 2,302,268
-	1,700,858
-	30,606
-	570,275
-	21,569
-	12,678
<u>2,000</u>	<u>53,579</u>
2,000	4,691,833
-	2,142,745
-	220,395
-	90,956
-	212,553
-	260,971
-	131,446
-	13,041
-	539,203
-	172,842
-	22,012
-	634,733
-	89,619
-	15,550
1,000	8,883
-	192,089
-	31,570
-	15,300
<u>1,000</u>	<u>4,793,908</u>
1,000	(102,075)
-	55,000
<u>-</u>	<u>(55,000)</u>
<u>-</u>	<u>-</u>
1,000	(102,075)
4,827	268,034
<u>-</u>	<u>(1,426)</u>
<u>\$ 5,827</u>	<u>\$ 164,533</u>

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
REVENUES:						
Taxes	\$ 2,227,162	\$ 1,987,657	\$ (239,505)	\$ -	\$ -	\$ -
Tuition	508,323	570,275	61,952	-	-	-
Interest	26,324	29,532	3,208	-	-	-
Extracurricular Activities	14	16	2	21,553	21,553	-
Classroom Materials and Fees	10,934	12,573	1,639	-	-	-
Intergovernmental	1,319,652	1,480,485	160,833	213,733	210,284	(3,449)
Miscellaneous	27,992	27,992	-	29,133	29,140	7
Total Revenues	4,120,401	4,108,530	(11,871)	264,419	260,977	(3,442)
EXPENDITURES:						
Instruction:						
Regular	2,071,360	2,061,139	10,221	95,365	76,381	18,984
Special	193,115	191,517	1,598	39,491	39,420	71
Vocational Education	92,672	90,537	2,135	-	-	-
Other Instruction	243,234	242,585	649	-	-	-
Support Services:						
Pupils	183,635	178,279	5,356	71,625	62,565	9,060
Instructional Support	107,725	106,106	1,619	31,376	20,748	10,628
Board of Education	15,850	12,920	2,930	-	-	-
Administration	507,415	504,100	3,315	39,297	31,910	7,387
Fiscal	186,131	184,801	1,330	-	-	-
Business	22,386	22,012	374	-	-	-
Operation and Maintenance of Plant	585,729	576,340	9,389	-	-	-
Pupil Transportation	149,640	149,457	183	-	-	-
Central	7,000	6,832	168	8,721	8,482	239
Operation of Non-instructional Services	8,500	7,684	816	217	-	217
Extracurricular Activities	147,300	146,376	924	51,023	44,787	6,236
Capital Outlay	10,900	10,778	122	-	-	-
Debt Service:						
Principal Payments	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-
Total Expenditures	4,532,592	4,491,463	41,129	337,115	284,293	52,822
Excess of Revenues Over/ (Under) Expenditures	(412,191)	(382,933)	29,258	(72,696)	(23,316)	49,380
Other Financing Sources/(Uses):						
Transfers In	-	-	-	-	-	-
Transfers Out	(55,000)	(55,000)	-	(575)	-	575
Advance In	64,802	72,700	7,898	19,200	19,200	-
Advance Out	(30,000)	(29,925)	75	(72,700)	(72,700)	-
Proceeds from Sale of Notes	-	-	-	-	-	-
Refund of Prior Year Expenditures	10,162	11,321	1,159	748	748	-
Total Other Financing Sources/(Uses)	(10,036)	(904)	9,132	(53,327)	(52,752)	575
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(422,227)	(383,837)	38,390	(126,023)	(76,068)	49,955
Fund Balance/(Deficit) July 1	522,162	522,162	-	158,861	158,861	-
Prior Year Encumbrances Appropriated	90,442	90,442	-	8,928	8,928	-
Fund Balance/(Deficit) June 30	\$ 190,377	\$ 228,767	\$ 38,390	\$ 41,766	\$ 91,721	\$ 49,955

See accompanying notes to the general purpose financial statements

Debt Service Funds			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
\$ -	\$ -	\$ -	\$ 83,117	\$ 74,080	\$ (9,037)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	502	9,539	9,037	-	-	-
-	-	-	2,475	2,475	-	2,000	2,000	-
-	-	-	86,094	86,094	-	2,000	2,000	-
-	-	-	865	795	70	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	12,000	12,000	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	46	-	46	-	-	-
-	-	-	850	845	5	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	103,460	102,348	1,112	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	6,826	1,000	5,826
-	-	-	-	-	-	-	-	-
-	-	-	22,211	22,211	-	-	-	-
-	-	-	360,000	360,000	-	-	-	-
-	-	-	15,300	15,300	-	-	-	-
-	-	-	514,732	513,499	1,233	6,826	1,000	5,826
-	-	-	(428,638)	(427,405)	1,233	(4,826)	1,000	5,826
-	-	-	55,000	55,000	-	-	-	-
-	-	-	4,500	4,500	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	320,000	320,000	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	379,500	379,500	-	-	-	-
-	-	-	(49,138)	(47,905)	1,233	(4,826)	1,000	5,826
15	15	-	32,976	32,976	-	4,826	4,826	-
-	-	-	24,711	24,711	-	-	-	-
<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 8,549</u>	<u>\$ 9,782</u>	<u>\$ 1,233</u>	<u>\$ -</u>	<u>\$ 5,826</u>	<u>\$ 5,826</u>

FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

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

	Total - (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
<u>REVENUES:</u>			
Taxes	\$ 2,310,279	\$ 2,061,737	\$ (248,542)
Tuition	508,323	570,275	61,952
Earnings on Investments	26,324	29,532	3,208
Extracurricular Activities	21,567	21,569	2
Classroom Materials and Fees	10,934	12,573	1,639
Intergovernmental	1,533,887	1,700,308	166,421
Miscellaneous	61,600	61,607	7
	4,472,914	4,457,601	(15,313)
<u>EXPENDITURES:</u>			
Instruction:			
Regular	2,167,590	2,138,315	29,275
Special	232,606	230,937	1,669
Vocational Education	92,672	90,537	2,135
Other Instruction	243,234	242,585	649
Support Services:			
Pupils	267,260	252,844	14,416
Instructional Support	139,101	126,854	12,247
Board of Education	15,850	12,920	2,930
Administration	546,758	536,010	10,748
Fiscal	186,981	185,646	1,335
Fiscal	22,386	22,012	374
Operation and Maintenance of Plant	689,189	678,688	10,501
Pupil Transportation	149,640	149,457	183
Central	15,721	15,314	407
Operation of Non-instructional Services	15,543	8,684	6,859
Extracurricular Activities	198,323	191,163	7,160
Capital Outlay	33,111	32,989	122
Debt Service:			
Principal Payments	360,000	360,000	-
Interest and Fiscal Charges	15,300	15,300	-
	5,391,265	5,290,255	101,010
Excess of Revenues Over/ (Under) Expenditures	(918,351)	(832,654)	85,697
<u>Other Financing Sources/(Uses):</u>			
Transfers In	55,000	55,000	-
Transfers Out	(55,575)	(55,000)	575
Advance In	88,502	96,400	7,898
Advance Out	(102,700)	(102,625)	75
Sale and Loss of Assets	320,000	320,000	-
Refund of Prior Year Expenditures	10,910	12,069	1,159
	316,137	325,844	9,707
Excess of Revenues, Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(602,214)	(506,810)	95,404
Fund Balance/(Deficit) July 1	718,840	718,840	-
Prior Year Encumbrances Appropriated	124,081	124,081	-
Fund Balance/(Deficit) June 30	\$ 240,707	\$ 336,111	\$ 95,404

See accompanying notes to the general purpose financial statements

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 1 – Description of the School District

The Fairport Harbor Exempted Village School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is located in Fairport Harbor, Ohio, Lake County. The School District operates under a locally elected five member Board and provides educational services as mandated by State or federal agencies. The Board controls the School District's two instructional facilities, staffed by 10 classified personnel, 55 certificated teaching personnel and 3 administrative employees to provide services to 552 students and other community members. The School District operates one elementary school (K-6), and one high school (7-12).

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the 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 the Fairport Harbor Exempted Village School District, this includes general operations and student related activities of the School District.

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

The School District is associated with five (5) jointly governed organizations, a related organization, a public entity risk pool, and a shared risk pool. These organizations are the East Shore Center, East Shore Regional Transportation System, the Auburn Career Center, the Lake Geauga Computer Association, the Ohio School Council, the Fairport Harbor Public Library, the Ohio Schools Council Workers' Compensation Group Rating Program, and the Lake County Council of Governments Health Care Benefits Program. These organizations are presented in Notes 15, 16, 17 and 18 to the general purpose financial statements.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentations – Fund Accounting

The School District uses funds and account groups 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.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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 restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

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

Governmental Fund Types Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trust or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Project Funds: Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Types Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. The School District's agency fund is purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations.

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

General Fixed Assets Account Group: This account group is used to account for all fixed assets of the School District.

General Long-Term Obligations Account Group: This account group is used to account for all long-term obligations of the School District.

B. Measurement Focus and Basis of Accounting

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

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. 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 the modified accrual basis, the revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal 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. (See Note 6) 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.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxes (available in the County Auditor's Office), interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2002, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2003 operations, have been recorded as deferred revenue.

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

C. 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 legal level of budgetary control is at the object level within each function for the general fund and the fund level for all other funds. Any budgetary modification at this level may only be made by resolution of the Board of Education.

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

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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

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

Appropriations: Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions for the general fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

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

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

D. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

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

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$30,606.

The School District participates in the Lake County Council of Governments Health Care Benefits Program insurance consortium for medical claims processing. These monies are held separate from the School District's central bank account and are reflected on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents". The Mentor Exempted City School District serves as fiscal agent for the insurance consortium.

For purpose of the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

E. Inventory

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost of inventory items are recorded as an expenditure in the governmental funds types when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund included unexpended revenues restricted for the amount required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization. See Note 21 for additional information.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School District does not have any infrastructure.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Improvements are capitalized over the remaining useful lives of fund fixed assets. Assets in the general fixed assets account group are not depreciated.

H. Interfund Assets and Liabilities

Receivables and Payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

I. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Transactions

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

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

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. Undesignated fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventory, debt service, property taxes, and for budget stabilization. The reserve for taxes represents property taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents cash that has been set aside as required by State statute to protect against cyclical changes in revenues and expenditures. Fund balance in the general fund includes a designation that represents the amount of money the School District has set-aside for future claim payments.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

Note 3 – Compliance and Accountability

A. Fund Deficits

The following funds had deficit fund balances at June 30, 2002:

	Deficit Fund Balance
Special Revenue Funds:	
Title VI-B	\$15,022
Title VI	232
Classroom Reduction	439
Capital Projects Fund:	
Permanent Improvement	306,186

The special revenue and capital projects fund deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

B. Compliance

The District was in violation of Ohio Revised Code Section 5705.39 by having total appropriations in funds exceeding the total estimated revenue, in various special revenue funds and the permanent improvement capital projects fund.

Note 4 – Budgetary Basis of Accounting

While the School District is reporting its financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budget Basis) – All Governmental Fund Types and Expendable Trust Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

The major differences between the budget basis and the 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 are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types.
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

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

Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses All Governmental Fund Types					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budget Basis	(\$383,837)	(\$76,068)	\$0	(\$47,905)	\$1,000
Net Adjustments:					
Revenue Accruals	141,850	(19,324)	0	(316,763)	0
Expenditure Accruals	247,729	89,887	0	366,640	0
Encumbrances	(96,011)	(5,953)	0	(3,320)	0
GAAP Basis	(\$90,269)	(\$11,458)	\$0	(\$1,348)	\$1,000

Note 5 – 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 two-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 accounts including passbook accounts.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuance's of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).

Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty (180) days in an amount not to exceed twenty five percent (25%) of the interim monies available for investment at any one time, and under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific 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.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits

At the fiscal year end, the carrying amount of the School District's deposits was (\$20,090) and the bank balance was (\$4,523). Of the bank balance, none is covered by Federal Depository Insurance.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Cash with Fiscal Agent

At the fiscal year end, the School District had \$124,829 in self-insurance monies, which is included on the balance sheet of the School District.

Investments

GASB statement 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered, or for which securities are held by the School District or its agent in the School District's name. Category 2 included uninsured and unregistered investments which securities are held by the counter-party'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 counter-party, or by its trust department or agent but not in the School District's name.

The School District has investments in the State Treasurer's Investment Pool (STAR OHIO) at June 30, 2002 in the amount of \$489,285, this particular investment is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$594,024	\$0
Money held by Fiscal Agent	(124,829)	0
Investments:		
STAR Ohio	(489,285)	489,285
GASB Statement 3	(\$20,090)	\$489,285

Note 6 – Property Taxes

Property taxes include amounts levied against real, public utility, and tangible property located within the School District. All property is required to be re-appraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35% of appraised market value. Pertinent real property tax dates are:

- Collection Dates: February and July of the current year.
- Lien Date: January 1 of the year preceding the collection year.
- Levy Date: October 1 of the year preceding the collection year.

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

Collection Dates: April and September of the current year.
Lien Date: January 1 of the current year.
Levy Date: October 1 of the year preceding the collection year.

Most public utility tangible personal property currently is assessed at 35% of its true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates: February and July of the current year.
Lien Date: December 31 of the second year preceding the collection year.
Levy Date: October 1 of the year preceding the collection year.

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

Tangible personal property taxes 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 Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects real estate property taxes on behalf of all taxing School Districts within the County. The County Auditor periodically remits to the School District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$405,531. \$392,463 was available to the general fund and \$13,068 was available to the capital projects fund. The amount available as an advance at June 30, 2001, was \$165,000. \$160,000 was available in the general fund and \$5,000 was available in the capital projects fund.

The assessed values are properties upon which fiscal year 2002 property tax revenues were based are as follows:

	<u>2001 Second Half Collections</u>	<u>2002 First Half Collections</u>
Residential/Agricultural and Other Real Estate	\$43,874,280	\$45,253,910
Public Utility Personal	5,403,670	3,580,620
General Personal Property	<u>4,880,297</u>	<u>4,271,763</u>
Total Valuation	<u>\$54,158,247</u>	<u>\$53,106,293</u>
Tax Rate per \$1,000 of Assessed Value	<u>\$75.17</u>	<u>\$75.23</u>

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 7 – Receivables

Receivables at June 30, 2002, consisted of taxes (both current and delinquent) (Note 6), accounts, intergovernmental, and interfund loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

Note 8 – Fixed Assets

The following is a summary of changes in General Fixed Assets:

	Balance 07/01/01	Additions	Deductions	Balance 6/30/02
Land and Buildings	\$1,433,636	\$0	\$0	\$1,433,636
Vehicles	5,600	0	0	5,600
Furniture and Equipment	652,288	48,983	0	701,271
Total	\$2,091,524	\$48,983	\$0	\$2,140,507

Note 9 – Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Nationwide Insurance Company for its professional liability coverage. This coverage has a \$1,000,000 single occurrence and \$3,000,000 annual aggregate with no deductible.

The vehicular fleet is protected by Nationwide Insurance Company with \$50 deductible for comprehensive and \$250 deductible for collision. Fleet liability has a combined single limit of \$2,000,000.

The Boiler and Machinery insurance is provided by Nationwide-Harcum/Hyre Insurance Agency. Boiler and Machinery limits are \$100,000 with \$1,000 deductible. Crime insurance is purchased through Love Insurance and is provided by Reliance National Insurance. The Property and Casualty insurance is purchased through Love Insurance and is provided by Reliance National Insurance.

Settled claims have not exceeded this commercial coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

B. Medical Benefits

The School District has contracted with the Lake County Schools Council of Governments (LCSC) to provide employee health and medical benefits since 1995. The LCSC is a shared risk pool comprised of eleven Lake County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The LCSC Board of Directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

The LCSC has stop loss coverage of 110% of expected claims. The District's share of the claims liability was provided by the third party administrator and is based on the requirements of Government Accounting Standards Board, Statement No. 10, which requires that a liability for unpaid claims cost, including estimates of cost related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Should contributions prove to be insufficient to pay program costs of the insurance program for any fiscal year, each participating member may be notified of the deficiency and can be billed for its share of the additional cost.

Changes in the claims amount were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$60,079	\$304,787	\$305,361	\$59,505
2001	71,187	261,626	272,734	60,079

The June 30, 2002 claims liability and cash with fiscal agent are determined based on the percentage of the School District's participants to total pool participants. For the year ended June 30, 2002, the pools cash reserves and claims liability were \$5,712,180 and \$2,722,953 respectively. The Schools Districts allocated pool percentage for the year ended June 30, 2002 was 2.2 percent, which represents \$124,829 and \$59,905 of pool cash reserves and claims liabilities.

C. Workers' Compensation

For Fiscal Year 2002, the School District participated in the Ohio Schools Council Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The school districts apply for participation each year. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 10 – Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws.

B. Sick Leave

Each full time Certificated and Non-Certificated employee is entitled to fifteen (15) days sick leave with pay for each year under contract and accrues sick leave at a rate of one and one-fourth (1¼) days for each calendar month under contract. Sick leave can be accumulated up to three hundred (300) days. For the purpose of severance payment calculation, the School District negotiated agreement reflects that payment shall be based on twenty percent (20%) of the first one hundred fifty (150) days of accumulated sick days, twenty five percent (25%) of the next forty (40) days, and thirty three and one-third percent (33 1/3%) of all remaining accumulated days. The School District has a recorded liability of \$285,998 for sick leave payable at June 30, 2002 for Governmental Fund Types, in accordance with

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

GASB no. 16 "Accounting for Compensated Absences". The amount has been recorded in the General Long-Term Obligations Account Group because it is expected that current financial resources will not be utilized to pay these long-term obligations.

C. Vacation Leave

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 25 days. A detail scale is contained within the negotiated agreement pertaining to vacation earnings. Employees are permitted to carry over unused vacation earnings into the next fiscal year. Accumulated vacation shall not exceed the number of vacation days, which could be accumulated in two (2) years. The School District has recorded a liability of \$6,527 for vacation leave payable at June 30, 2002 for Governmental Fund Types, in accordance with GASB no. 16 "Accounting for Compensated Absences". The amount has been recorded in the fund from which it will ultimately be paid.

Note 11 – Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$29,387, \$20,285 and \$20,921 respectively; 61 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District is required to contribute 14 percent. 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, 2002, 2001, and 2000 were \$221,757, \$175,362, and \$118,070, respectively; 73 percent has been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal years 2001 & 2000. \$14,454 represents the unpaid contribution for fiscal year 2003 and \$46,140 represents the contributions for July and August of fiscal year 2004 which are recorded as a liability within the general fund.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 12 – Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has authority over how much, if any, of the health costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$93,821 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, the balance in the Fund was \$3.011 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$354,697,000 and STRS has 105,300 eligible benefit recipients.

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

After the allocation for basis benefits, the remainder of the employer's 14 percent contributions is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$47,764 during the 2002 fiscal year.

Note 13 – Notes Payable

The School District's note activity, including amounts outstanding and interest rates, is as follows:

	Balance at 6/30/01	Additions	Deletions	Balance at 6/30/02
<u>Capital Projects Fund</u>				
HB 264 Project - 4.25%	\$360,000	\$320,000	(\$360,000)	\$320,000

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 14 – Long-Term Obligations

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

	Principal Outstanding at 6/30/01	Additions	Deletions	Principal Outstanding at 6/30/02
Intergovernmental Payable	\$34,051	\$0	(\$34,051)	\$0
Pension Obligation Payable	0	31,039	0	31,039
Compensated Absences	246,235	39,763	0	285,998
	\$280,286	\$70,802	(\$34,051)	\$317,037

Compensated absences and pension obligation payable will be paid from the fund from which the employees are paid.

The School District’s overall debt margin was \$4,779,566 with an unvoted debt margin of \$53,106 at June 30, 2002.

Note 15 – Jointly Governed Organizations

A. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 320, Painesville, Ohio 44077.

B. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school district. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. ESRTS is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

C. Auburn Career Center

The Auburn Career Center is a joint vocational School District that is a jointly governed organization among eleven School Districts. Each participating School District appoints one member to the Auburn Career Center’s Board of Education. The students of each participating School District may attend classes offered at the vocational facility. Each participant’s control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District’s continued participation. Financial information can be obtained by writing the Auburn Career Center, 8221 Auburn Road, Painesville, Ohio 44077.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

D. Lake/Geauga Computer Association

The Lake/Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen member School Districts. Each of the School Districts support LGCA based upon a per pupil charge. The Executive Committee (governing board) consists of the superintendents and treasurers of the member School Districts. The degree of control exercised by any participating School District is limited to its representation on the governing board. LCGA's continued existence is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8221 Auburn Road, Painesville, Ohio 44077.

E. Ohio Schools Council

The Ohio Schools' Council (the "Council") is a jointly governed organization among its eighty-three member School Districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member School Districts. Each School District supports the Council by paying a one-time fee of \$500 and an annual participation fee. The Council's Board consists of seven (7) superintendents of the participating School Districts whose term rotates every year. During Fiscal Year 2002, the School District paid \$750 to the Council. The degree of control exercised by any School District is limited to its representation on the Board. Financial information can be obtained by contacting the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio, 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows School District to purchase electricity at reduced rates, if the School District will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June, the Council compares the estimated usage to the actual usage and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to pre-purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating School Districts are not obligated in any manner for this debt. If a participating School District terminates its agreement of participation, that School District is required to repay savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts committed to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contribution to the operating fund, which are not encumbered for its share of program administrative costs.

Note 16 – Related Organization

The Fairport Harbor Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Fairport Harbor Exempted School District's Board of Education. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Fairport Harbor Public Library, Linda Hofer,

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Clerk/Treasurer, at 335 Vine Street, Fairport Harbor, Ohio, 44077.

Note 17 – Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. All participating members retain their risk and are completely responsible for paying their own claims. The HCBP acts solely as the claims servicing agent.

Note 18 – Health Care Benefits Risk Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance – The School District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a shared risk pool, comprised of eleven members. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors.

Note 19 - Contingencies

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

Note 20 – State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funded parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with this order. In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 14, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and re-determine any issue upon such reconsideration.

Fairport Harbor Exempted Village School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

Note 21 – Set-Aside Requirements

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2002, only the unspent portion of workers' compensation refunds continues to be set aside.

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

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance as of June 30, 2001	(\$49,446)	\$0	\$28,321
Current year set-aside requirement	69,123	69,123	0
Qualifying Disbursements	(101,279)	(76,651)	0
Totals	<u>(81,602)</u>	<u>(7,528)</u>	<u>\$28,321</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(81,602)</u>	<u>0</u>	<u>28,321</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$28,321</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$28,321. The general fund balance includes \$28,321 that has been designated for the amount of set-asides in excess of requirements.

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Auditor of State Betty Montgomery

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

Board of Education
Fairport Harbor Exempted Village School District
Lake County
329 Vine Street
Fairport Harbor, Ohio 44077

We have audited the financial statement of the Fairport Harbor Exempted Village School District, Lake County, Ohio, (the District) as of and for the years ended June 30, 2003 and June 30, 2002, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

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

We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated December 12, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters regarding internal controls over financial reporting that we have reported to management of the District in a separate letter dated December 12, 2003.

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

December 12, 2003

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002**

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

Finding Number	2003-001
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Ohio Rev. Code Section 5705.39 states in part that the total appropriations from each fund should not exceed the total estimated revenue. During our fiscal year 2002 testing, the following funds had appropriations exceeding estimated revenue at January 31, 2002:

	Estimated Revenue	Total Appropriations	Variance
Special Revenue Funds:			
Student Activities	\$36,477	\$49,818	(\$13,341)
EMIS	2,471	7,471	(5,000)
School Net Building	6,000	13,000	(7,000)
Ohio Reads	61,226	62,618	(1,392)
Title VI B	98	95,697	(95,599)
Title I	44,120	75,475	(31,355)
Title V	171	5,431	(5,260)
Drug Free Schools	1,433	3,432	(1,999)
Title II A	67	21,785	(21,718)
Capital Projects Fund:			
Permanent Improvement	100,766	477,156	(376,390)

These variances were corrected by June 30, 2002. We recommend that the District compare appropriations to estimated revenue in all funds to ensure compliance with the above requirements. This comparison should be made on a monthly basis at a minimum.

**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002
(Continued)**

Finding Number	2003-002
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Ohio Rev. Code Section 5705.41(B)(D) prohibits a subdivision or taxing unit from making an expenditure plus encumbrances unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the District may not exceed appropriations at the legal level of control for all funds. During our fiscal year 2003 testing the following funds had expenditures and encumbrances exceeding appropriations at November 30, 2002:

	Appropriations	Total Expenditures and Encumbrances	Variance
General Fund:			
Supplies and Materials	\$64,924	\$88,086	\$(23,162)
Miscellaneous Objects	-	600	(600)
Purchased Services	19,821	64,670	(44,849)
Supplies and Materials	2,500	7,197	(4,697)
Purchased Services	-	950	(950)
Supplies and Materials	2,219	3,890	(1,671)
Supplies and Materials	3,100	3,329	(229)
Supplies and Materials	300	641	(341)
Purchased Services	2,000	2,039	(39)
Capital Outlay - Replacement	7,000	8,391	(1,391)
Supplies and Materials	-	168	(168)
Capital Outlay	1,875	2,412	(537)
Capital Outlay - Replacement	-	2,324	(2,324)
Personal Services, Salaries	-	1,415	(1,415)
Employee Retirement Benefits	-	3,000	(3,000)
Personal Services, Salaries	6,000	6,195	(195)
Purchased Services	7,045	9,080	(2,035)
Special Revenue Funds:			
Student Activities	9,849	23,532	(13,683)
Professional Development	2,874	3,245	(371)
Title VI-B	78	15,870	(15,792)
Title I	3,616	7,706	(4,090)
Title VI	18	250	(232)
Preschool	-	500	(500)
Classroom Reduction	11	450	(439)

These variances were corrected by June 30, 2003. We recommend that the District compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to ensure compliance with the above requirements. This comparison should be made on a monthly basis at a minimum.



**Auditor of State
Betty Montgomery**

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FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT

LAKE 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
JANUARY 20, 2004**