

Ashtabula Area City School District

**Basic Financial Statements
June 30, 2006**



Mary Taylor, CPA
Auditor of State

Board of Education
Ashtabula Area City School District
401 West 44th Street
Ashtabula, Ohio 44004

We have reviewed the *Independent Auditors' Report* of the Ashtabula Area City School District, Ashtabula County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ashtabula Area City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 29, 2008

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Ashtabula Area City School District
For the Fiscal Year Ended June 30, 2006
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Independent Auditors' Report

Board of Education
Ashtabula Area City School District
Ashtabula, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2006, the District implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Board of Education
Ashtabula Area City School District

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cini & Paricki, Inc.

Cleveland, Ohio
September 16, 2008

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

The discussion and analysis of the Ashtabula Area City School District (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- Total net assets of governmental activities increased \$2,953,625, which represents a 15.1 percent increase from 2005.
- Total general revenues equaled \$39,469,730 or 82 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$8,505,837 or 18 percent of total revenues.
- Total assets of governmental activities increased by \$2,309,078, due largely to activity in the Construction fund—cash balances from interest received and capitalization of building construction expenditures.
- The District had \$45,021,942 in expenses related to governmental activities; \$8,505,837 of these expenses was offset by program specific charges for services, grants, contributions and interest.
- The general fund balance was \$2,480,554 at fiscal year end, increased from \$2,080,877 on June 30, 2005.
- Outstanding debt was decreased from a balance of \$42,148,657 in 2005 to \$40,888,657; while the accretion balance on the capital asset appreciation bonds increased from \$1,047,957 to \$1,397,275.

Using this Annual Financial Report

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

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail.

For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund.

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets and the Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the District's activities are classified as governmental. All of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food services and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

The District's major governmental funds are the general fund, bond retirement fund and the construction fund.

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

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

The District as a Whole

The statement of net assets provides the perspective of the School District as a whole. The District's total net assets decreased slightly from a year ago, as shown in Table 1. The District was able to maintain its financial health while addressing stagnant revenues, slow federal reimbursements and rising costs.

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

	Table 1	
	<u>Net Assets</u>	
	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2006</u>	<u>2005-Restated</u>
<u>Assets</u>		
Current and Other Assets	\$ 33,113,983	\$ 56,361,547
Capital Assets	51,385,838	25,829,196
Total Assets	<u>84,499,821</u>	<u>82,190,743</u>
<u>Liabilities</u>		
Current and Other Liabilities	15,680,881	15,655,542
Long Term Liabilities:		
Due Within One Year	2,603,394	2,294,518
Due More Than One Year	43,665,238	44,644,000
Total Liabilities	<u>61,949,513</u>	<u>62,594,060</u>
<u>Net Assets</u>		
Invested in Capital Assets Net of Debt	10,074,783	9,604,179
Restricted	11,500,345	8,999,567
Unrestricted (Deficit)	975,180	992,937
Total Net Assets	<u>\$ 22,550,308</u>	<u>\$ 19,596,683</u>

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Table 2 shows the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

Table 2
Change in Net Assets

	Governmental Activities	
	2006	2005-Restated
Revenues		
Program Revenues:		
Charges for Services	\$ 476,740	\$ 465,318
Operating Grants, Contributions and Interest	7,988,521	7,175,523
Capital Grants, Contributions and Interest	40,576	80,840
Total Program Revenues	<u>8,505,837</u>	<u>7,721,681</u>
General Revenues:		
Property Taxes	16,277,332	15,113,879
Grants and Entitlements	21,579,048	21,895,783
Interest	1,162,948	1,038,827
Other	450,402	78,860
Total General Revenues	<u>39,469,730</u>	<u>38,127,349</u>
Total Revenues	<u>47,975,567</u>	<u>45,849,030</u>
Program Expenses		
Instruction:		
Regular	19,360,815	18,112,062
Special	6,491,391	6,122,382
Vocational	265,107	258,620
Other Instruction	383,378	97,005
Support Services	14,014,632	12,925,879
Operation of Non-Instructional Services	1,505,182	1,635,139
Extra-curricular Activities	627,186	657,813
Facilities Acquisition and Construction	261,265	1,310,905
Interest and Fiscal Charges	2,112,986	2,142,117
Total Program Expenses	<u>45,021,942</u>	<u>43,261,922</u>
Increase in Net Assets	2,953,625	2,587,108
Net Assets Beginning of Year	<u>19,596,683</u>	<u>17,009,575</u>
Net Assets End of Year	<u>\$ 22,550,308</u>	<u>\$ 19,596,683</u>

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Analysis of Overall Financial Position and Results of Operation

The DeRolph III decision has not eliminated the dependence on property taxes. During the year, property taxes comprised 34 percent of the operating revenue. The District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Instruction comprises 59 percent of governmental program expenses. Historically, the School District has promoted the excellence of the educational program by allocation of resources in the instructional area.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Total and Net Cost of Program Services for 2006

	Governmental Activities	
	Total Cost	Net Cost
Instruction	\$ 26,500,691	\$ 21,844,526
Support Services:		
Pupils	2,428,930	1,720,302
Instructional Staff	1,823,356	820,249
Board of Education	127,400	127,400
Administration	2,790,103	2,580,216
Fiscal	872,878	799,331
Business	675,063	667,807
Operation & Maintenance of Plant	3,553,918	3,551,553
Pupil Transportation	1,663,710	1,611,562
Central	79,274	28,293
Operation of Non-Instructional Services	1,505,182	(49,565)
Extra-curricular Activities	627,186	440,180
Facilities Acquisition and Construction	261,265	261,265
Interest and Fiscal Charges	2,112,986	2,112,986
 Total Expenses	 <u>\$ 45,021,942</u>	 <u>\$ 36,516,105</u>

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

The District's Funds

As previously stated, governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$48,241,180, expenditures of \$72,136,952, and net other financing sources and uses of \$3,433. The net change in fund balance for the year was most significant in the Construction Fund, where the fund balance decreased by \$24,930,132 due to revenues being limited to investment interest and expenditures of the bond issuance receipts, from a previous year, continuing on the new high school building.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget periodically as defined by individual team needs.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006 the District had \$51,385,838 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2006 balances compared to 2005.

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

	Governmental Activities	
	2006	2005
Land	\$ 376,369	\$ 376,369
Construction in Progress	41,342,107	16,225,017
Other Improvements	456,721	488,671
Buildings	4,870,348	4,431,484
Furniture and Equipment	2,917,149	2,703,536
Vehicles	822,589	700,874
Textbooks	600,555	903,245
 Totals	 \$ 51,385,838	 \$ 25,829,196

The majority of the increase was the result of the continuation of the capital improvement and construction program.

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Debt

At June 30, 2006, the District had bonds and notes outstanding; and a capital lease contract. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2006	2005 - Restated
2004 School Construction and Improvement		
General Obligation Bonds:		
Serial Bonds	\$ 39,760,000	\$ 41,020,000
Capital Appreciation Bonds	1,128,657	1,128,657
Accretion on Capital Appreciation Bonds	1,397,275	1,047,957
Total	<u>\$ 42,285,932</u>	<u>\$ 43,196,614</u>

Current Issues Affecting Financial Condition

Schools in Ohio are funded by the state and federal government and by local property taxes. Local money is necessary in Ashtabula, just as it is throughout the state to keep the schools running.

Another challenge facing the District is the future of State funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Ohio General Assembly was directed to enact a school-funding mechanism that is to be thorough and efficient. The District is unable to determine what effect, if any, this decision will have on future funding from the State. Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

Since 1990, the school system has had only one new operating levy. This 5-mill levy was passed in November of 2000, for a period of three years. This operating levy was replaced by a 5 mill continuing levy approved by the electorate in August, 2003.

In 2001, Ashtabula and Harbor High Schools were consolidated to form the new Lakeside High School. In May of 2002, the community passed Issue 1, a bond that will provide new schools throughout the district. The first school to be built will be a new high school located on Sanborn Road in Saybrook Township. The new building, stadium and other athletic fields are in the final stages of construction.

The State of Ohio has committed to fund 70% of the total project cost. Other portions of the project are funded completely with local funds that were approved by the voters. The Locally Funded Initiatives, as they are called, include a Performing Arts Center, Large Group Instruction Area, and an Athletic Complex.

Construction began in August 2004 and is expected to be complete for the start of school in August 2006.

Ashtabula Area City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Treasurer, Michele Tullai, Ashtabula Area City School District, 401 West 44th Street, Ashtabula, Ohio 44005, or telephone (440) 993-2505.

Ashtabula Area City School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 18,303,314
Accounts Receivable	3,177
Intergovernmental Receivable	492,359
Materials and Supplies Inventory	66,453
Property Taxes Receivable	14,248,127
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	553
Nondepreciable Capital Assets	41,718,476
Depreciable Capital Assets, Net	<u>9,667,362</u>
<i>Total Assets</i>	<u>84,499,821</u>
Liabilities	
Accounts Payable	1,927,355
Accrued Wages and Benefits	3,110,083
Intergovernmental Payable	1,610,059
Accrued Interest Payable	147,490
Claims Payable	1,128,000
Retainage Payable	1,219,145
Deferred Revenue	6,538,749
Long-Term Liabilities:	
Due Within One Year	2,603,394
Due In More Than One Year	<u>43,665,238</u>
<i>Total Liabilities</i>	<u>61,949,513</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	10,074,783
Restricted for:	
Setasides	553
Capital Projects	7,859,203
Debt Service	2,049,454
Other Purposes	1,591,135
Unrestricted	<u>975,180</u>
<i>Total Net Assets</i>	<u>\$ 22,550,308</u>

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Revenue and Changes in Net Assets
Governmental Activities					Governmental Activities
Instruction:					
Regular	\$ 19,360,815	\$ 1,952	\$ 2,571,492	\$ -	\$ (16,787,371)
Special	6,491,391	-	1,962,471	-	(4,528,920)
Vocational	265,107	-	-	-	(265,107)
Adult/Continuing	383,378	-	120,250	-	(263,128)
Support Services:					
Pupil	2,428,930	-	668,052	40,576	(1,720,302)
Instructional Staff	1,823,356	-	1,003,107	-	(820,249)
Board of Education	127,400	-	-	-	(127,400)
Administration	2,790,103	-	209,887	-	(2,580,216)
Fiscal	872,878	-	73,547	-	(799,331)
Business	675,063	-	7,256	-	(667,807)
Operation and Maintenance	3,553,918	-	2,365	-	(3,551,553)
Pupil Transportation	1,663,710	3,757	48,391	-	(1,611,562)
Central	79,274	-	50,981	-	(28,293)
Operation of Non-Instructional Services:					
Food Service Operations	1,269,367	333,290	947,090	-	11,013
Other Non-instructional Services	235,815	-	274,367	-	38,552
Extracurricular Activities	627,186	137,741	49,265	-	(440,180)
Facilities Acquisition and					
Construction Services	261,265	-	-	-	(261,265)
Interest and Fiscal Charges	2,112,986	-	-	-	(2,112,986)
Total Governmental Activities	\$ 45,021,942	\$ 476,740	\$ 7,988,521	\$ 40,576	(36,516,105)

General Revenues

Property Taxes Levied for:	
General Purposes	11,400,193
Debt Service	3,304,573
Capital Outlay	1,572,566
Grants and Entitlements not Restricted to Specific Programs	21,579,048
Investment Earnings	1,162,948
Miscellaneous	454,247
Loss on Disposal of Fixes Assets	(3,845)
Total General Revenues	39,469,730
Change in Net Assets	2,953,625
<i>Net Assets Beginning of Year, Restated (see Note 3)</i>	<u>19,596,683</u>
<i>Net Assets End of Year</i>	<u>\$ 22,550,308</u>

See accompanying notes to basic financial statements.

Ashtabula Area City School District
Balance Sheet
June 30, 2006

	General Fund	Bond Retirement	Permanent Improvement	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and						
Cash Equivalents	\$ 1,779,870	\$ 1,005,752	\$ 2,818,285	\$ 7,150,672	\$ 2,262,079	\$ 15,016,658
Accounts Receivable	3,177	-	-	-	-	3,177
Intergovernmental Receivable	-	-	-	-	492,359	492,359
Interfund Receivable	343,163	-	-	-	-	343,163
Materials and Supplies Inventory	49,730	-	-	-	16,723	66,453
Property Taxes Receivable	9,730,190	3,016,790	1,409,226	-	91,921	14,248,127
Restricted Assets:						
Equity in pooled cash and cash equivalents	553	-	-	-	-	553
Total Assets	\$ 11,906,683	\$ 4,022,542	\$ 4,227,511	\$ 7,150,672	\$ 2,863,082	\$ 30,170,490
Liabilities						
Accounts Payable	\$ 219,979	\$ -	\$ 62,937	\$ 1,605,561	\$ 38,878	\$ 1,927,355
Accrued Wages	2,540,602	-	-	-	569,481	3,110,083
Intergovernmental Payable	1,080,419	-	-	-	193,161	1,273,580
Interfund Payable	-	-	-	-	343,164	343,164
Compensated Absences Payable	198,459	-	-	-	3,421	201,880
Retainage Payable	-	-	-	1,219,145	-	1,219,145
Deferred Revenue	5,386,670	1,695,883	788,341	-	106,464	7,977,358
Total Liabilities	9,426,129	1,695,883	851,278	2,824,706	1,254,569	16,052,565
Fund Balances						
Reserved for Encumbrances	183,350	-	149,493	4,368,716	238,326	4,939,885
Reserved for Budget Stabilization	553	-	-	-	-	553
Reserved for Property Taxes	4,343,520	1,320,907	620,885	-	-	6,285,312
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	(2,046,869)	-	-	-	-	(2,046,869)
Special Revenue Funds	-	-	-	-	1,386,267	1,386,267
Debt Service Funds	-	1,005,752	-	-	-	1,005,752
Capital Projects Funds	-	-	2,605,855	(42,750)	(16,080)	2,547,025
Total Fund Balances	2,480,554	2,326,659	3,376,233	4,325,966	1,608,513	14,117,925
Total Liabilities and Fund Balances	\$ 11,906,683	\$ 4,022,542	\$ 4,227,511	\$ 7,150,672	\$ 2,863,082	\$ 30,170,490

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

<i>Total Governmental Funds Balances</i>		\$ 14,117,925
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		51,385,838
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes		1,438,609
Internal service funds are used by management to charge the cost of health insurance and workers' compensation premiums to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		1,822,177
Premiums received from the sale of general obligation bonds are considered financial resources and reported as revenue in the funds but deferred in the statement of net assets.		(422,398)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Serial Bonds	\$ (39,760,000)	
Capital Appreciation Bonds	(1,128,657)	
Bond Accretion	(1,397,275)	
Compensated Absences	(3,358,421)	
Accrued Interest Payable	(147,490)	
Total	(45,791,843)	(45,791,843)
 <i>Net Assets of Governmental Activities</i>		 \$ 22,550,308

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General Fund	Bond Retirement Fund	Permanent Improvement	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 11,619,731	\$ 3,324,255	\$ 1,595,114	\$ -	\$ -	\$ 16,539,100
Intergovernmental	20,512,542	317,195	152,703	-	8,153,206	29,135,646
Interest	545,725	-	-	614,793	2,430	1,162,948
Tuition and Fees	376,143	-	-	-	7,664	383,807
Charges for Services	3,757	-	-	-	333,290	337,047
Extracurricular Activities	4,850	-	-	-	127,179	132,029
Contributions and donations	-	-	-	-	96,356	96,356
Miscellaneous	416,301	-	-	1,100	36,846	454,247
<i>Total Revenues</i>	<u>33,479,049</u>	<u>3,641,450</u>	<u>1,747,817</u>	<u>615,893</u>	<u>8,756,971</u>	<u>48,241,180</u>
Expenditures						
Current:						
Instruction:						
Regular	16,269,520	-	488,194	-	2,232,178	18,989,892
Special	4,631,214	-	-	-	1,955,708	6,586,922
Vocational	264,545	-	-	-	-	264,545
Adult/Continuing	283,855	-	-	-	99,523	383,378
Support Services:						
Pupil	1,743,609	-	-	-	708,251	2,451,860
Instructional Staff	373,908	-	-	214,574	1,074,127	1,662,609
Board of Education	127,147	-	-	-	-	127,147
Administration	2,534,632	-	23,893	-	264,383	2,822,908
Fiscal	710,134	60,913	48,615	-	87,997	907,659
Business	672,368	-	200	-	7,563	680,131
Operation and Maintenance of Plant	3,555,378	-	57,291	-	2,412	3,615,081
Pupil Transportation	1,492,700	-	426,488	-	50,674	1,969,862
Central	17,454	-	-	-	61,820	79,274
Operation of Non-Instructional Services						
Food Service	-	-	-	-	1,269,477	1,269,477
Other	-	-	6,568	-	269,537	276,105
Extracurricular Activities	399,172	-	-	-	281,475	680,647
Capital Outlay	-	-	994,889	25,331,451	-	26,326,340
Debt Service:						
Principal Retirement	-	1,260,000	-	-	-	1,260,000
Interest and Fiscal Charges	-	1,783,115	-	-	-	1,783,115
<i>Total Expenditures</i>	<u>33,075,636</u>	<u>3,104,028</u>	<u>2,046,138</u>	<u>25,546,025</u>	<u>8,365,125</u>	<u>72,136,952</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>403,413</u>	<u>537,422</u>	<u>(298,321)</u>	<u>(24,930,132)</u>	<u>391,846</u>	<u>(23,895,772)</u>
Other Financing Sources (Uses)						
Sale of Fixed Assets	3,433	-	-	-	-	3,433
Transfers In	199	-	-	-	7,368	7,567
Transfers Out	(7,368)	-	-	-	(199)	(7,567)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,736)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,169</u>	<u>3,433</u>
<i>Net Change in Fund Balances</i>	399,677	537,422	(298,321)	(24,930,132)	399,015	(23,892,339)
<i>Fund Balances Beginning of Year Restated (see Note 3)</i>	<u>2,080,877</u>	<u>1,789,237</u>	<u>3,674,554</u>	<u>29,256,098</u>	<u>1,209,498</u>	<u>38,010,264</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,480,554</u>	<u>\$ 2,326,659</u>	<u>\$ 3,376,233</u>	<u>\$ 4,325,966</u>	<u>\$ 1,608,513</u>	<u>\$ 14,117,925</u>

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the State of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (23,892,339)

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which capital
outlays exceeds depreciation in the current period. 25,563,920

Governmental funds only report the disposal of capital assets to the extent
proceeds are received from that sale. In the statement of activities, a
gain or loss is reported for each disposal. This is the amount of the loss
on the disposal of capital assets. (7,278)

Property tax revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in the funds. (261,768)

Premiums received on the sale of general obligation bonds are
reported as revenue in the funds but are amortized over the life
of the bonds in the statement of activities. 17,241

Repayment of long-term liabilities are expenditures in the
governmental funds, but the reduce the liability balance
in the statement of net assets.

Principal paid on serial bonds	1,260,000	
Total		1,260,000

In the statement of activities, interest is accrued on outstanding
bonds, whereas in governmental funds, an interest expenditure
is reported when paid. The governmental funds report the effect
of bond accretion when the issuance matures, whereas these
amounts are accrued in the statement of activities.

Change in Accrued Interest Payable	2,206	
Accretion on Capital Appreciation Bonds	(349,318)	
		(347,112)

Some expenses reported in the statement of activities, such as
compensated absences and intergovernmental payable which
represent contractually required pension contributions, do not
require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Compensated Absences	(173,947)	
Total		(173,947)

The internal service fund used by management to charge the costs
of insurance to individual funds are not reported in the statement
of activities. Governmental fund expenditures and related internal
service fund revenues are eliminated. The net revenue (expense)
of the internal service fund is allocated among the governmental
activities 794,908

Change in Net Assets of Governmental Activities \$ 2,953,625

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 10,984,755	\$ 11,318,630	\$ 11,342,933	\$ 24,303
Intergovernmental	23,297,829	20,468,592	20,512,542	43,950
Interest	459,444	544,556	545,725	1,169
Tuition and Fees	375,489	378,076	378,888	812
Extracurricular Activities	39,000	4,935	4,953	18
Miscellaneous	331,354	408,674	409,551	877
Refund of Prior Year Expenditures	1,838	1,834	1,838	4
<i>Total Revenues</i>	<u>35,489,709</u>	<u>33,125,297</u>	<u>33,196,430</u>	<u>71,133</u>
Expenditures				
Current:				
Instruction:				
Regular	15,602,807	16,093,615	16,333,268	(239,653)
Special	4,422,714	4,290,072	4,579,060	(288,988)
Vocational	260,071	260,071	272,003	(11,932)
Other	88,000	237,641	283,855	(46,214)
Support Services:				
Pupils	1,584,727	1,584,527	1,686,379	(101,852)
Instructional Staff	429,036	430,036	414,977	15,059
Board of Education	141,435	141,435	138,374	3,061
Administration	2,597,991	2,597,991	2,575,051	22,940
Fiscal	911,545	905,366	760,646	144,720
Business	701,688	701,688	627,404	74,284
Operation and Maintenance of Plant	3,419,989	3,412,903	3,629,912	(217,009)
Pupil Transportation	1,359,898	1,496,984	1,521,514	(24,530)
Central	22,500	22,500	17,504	4,996
Extracurricular Activities	456,238	463,402	401,681	61,721
Capital Outlay (other facilities acq & constr)	1,500	1,500	182	1,318
Refund of Prior Year Receipts	-	-	19,215	(19,215)
<i>Total Expenditures</i>	<u>32,000,139</u>	<u>32,639,731</u>	<u>33,261,025</u>	<u>(621,294)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,489,570</u>	<u>485,566</u>	<u>(64,595)</u>	<u>(550,161)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	-	3,433	3,433	-
Advances In	-	203,173	203,609	436
Advances Out	(1,000,000)	(854,000)	(179,350)	674,650
Transfers In	-	199	199	-
Transfers Out	(65,947)	(65,947)	(7,368)	58,579
<i>Total Other Financing Sources (Uses)</i>	<u>(1,065,947)</u>	<u>(713,142)</u>	<u>20,523</u>	<u>733,665</u>
<i>Net Change in Fund Balance</i>	2,423,623	(227,576)	(44,072)	183,504
<i>Fund Balance Beginning of Year, restated</i>	1,347,271	1,347,271	1,347,271	-
Prior Year Encumbrances Appropriated	227,577	227,577	227,577	-
<i>Fund Balance End of Year</i>	<u>\$ 3,998,471</u>	<u>\$ 1,347,272</u>	<u>\$ 1,530,776</u>	<u>\$ 489,195</u>

Ashtabula Area City School District

Statement of Fund Net Assets

Propriety Funds

June 30, 2006

	<u>Governmental Activities - Internal Service Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 3,286,656</u>
<i>Total Assets</i>	<u>3,286,656</u>
Liabilities	
Intergovernmental Payable	336,479
Claims Payable	<u>1,128,000</u>
<i>Total Liabilities</i>	<u>1,464,479</u>
Net Assets	
Unrestricted	<u>1,822,177</u>
<i>Total Net Assets</i>	<u><u>\$ 1,822,177</u></u>

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006*

	<u>Governmental Activities - Internal Service Funds</u>
Operating Revenues	
Charges for Services	\$ 5,535,969
Other Revenues	<u>299,867</u>
<i>Total Operating Revenue</i>	<u>5,835,836</u>
Operating Expenses	
Purchased Services	737,261
Claims	4,164,907
Other	<u>138,760</u>
<i>Total Operating Expenses</i>	<u>5,040,928</u>
<i>Change in Net Assets</i>	794,908
<i>Net Assets Beginning of Year</i>	<u>1,027,269</u>
<i>Net Assets End of Year</i>	<u><u>\$ 1,822,177</u></u>

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows from Operating activities:	
Cash Received from Other Funds	\$ 5,888,048
Cash Payments for Purchased Services	(557,098)
Cash Payments for Claims	(4,148,707)
Cash Payments for Premiums	<u>(138,760)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>1,043,483</u>
<i>Net Increase in Cash and Cash Equivalents</i>	1,043,483
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>2,243,173</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 3,286,656</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$ 794,908
Adjustments:	
(Increase) Decrease in Assets:	
Interfund Receivable	52,212
Increase (Decrease) in Liabilities:	
Intergovernmental Payable	180,163
Claims Payable	<u>16,200</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 1,043,483</u></u>

See accompanying notes to the basic financial statements.

Ashtabula Area City School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 31,490	\$ 49,028
Investments	<u>8,454</u>	<u>-</u>
<i>Total Assets</i>	<u>39,944</u>	<u><u>\$ 49,028</u></u>
Liabilities		
Accounts Payable	-	\$ 1,718
Due to Students	<u>-</u>	<u>47,310</u>
<i>Total Liabilities</i>	<u>-</u>	<u><u>\$ 49,028</u></u>
Net Assets		
Held in Trust	<u>39,944</u>	
<i>Total Net Assets</i>	<u><u>\$ 39,944</u></u>	

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Private Purpose Trust Funds</u>
Additions	
Investment Earnings	\$ 876
Contributions and Donations	<u>8,212</u>
<i>Total Additions</i>	<u>9,088</u>
Deductions	
Scholarships Awarded	<u>2,345</u>
<i>Total Deductions</i>	<u>2,345</u>
<i>Change in Net Assets</i>	6,743
<i>Net Assets Beginning of Year</i>	<u>33,201</u>
<i>Net Assets End of Year</i>	<u><u>\$ 39,944</u></u>

See accompanying notes to the basic financial statements.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 – DESCRIPTION OF DISTRICT

The Ashtabula Area City School District (the “District”) a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the district as mandated by state and/or federal agencies. The District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. Average daily membership (ADM) as of October 3, 2005, was 4,374. The District employed 25 administrative and supervisory personnel, 307 certified employees and 192 non-certificated employees.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14 “*The Financial Reporting Entity*.” The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For Ashtabula Area City School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the District.

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (continued)

Jointly Governed Organizations

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. The District contributed \$66,465 to NEOMIN during fiscal year 2006.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county. The District was represented on the Governing Board by the District's superintendent during fiscal year 2006. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

Northeast Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Education Service Center, 2801 Market Street, Youngstown, Ohio 44507

Northeast Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The jointly governed organization was formed for the purpose of providing quality film and/or other media to support the educational curricula of the member school districts. Each member pays a monthly premium based on used of the media materials.

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, the county superintendent from each participating county, one city superintendent and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (continued)

Ashtabula County Joint Vocational School District

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

Public Entity Risk Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Related Organizations

Non-public schools

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

Harbor-Topky Memorial Library

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

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is divided into separate fund types.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (continued)

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Bond Retirement Fund – This fund accounts for the collection of property taxes that are used for the payment of principal and interest and fiscal charges on general obligation debt.

Permanent Improvement Fund – This fund accounts for the collection of property taxes that are used for acquiring, constructing, or improving permanent improvements.

Construction Fund – This fund accounts for note proceeds, grants, and interest revenue to be expended in connection with contracts entered with the Ohio Department of Education for the building and equipping of a new high school.

Other governmental funds of the District account for food service operations, grants and other resources, and other capital projects of the District whose use is restricted to a particular purpose.

Proprietary Fund

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund.

Internal Service Funds – Internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The Employee Health Insurance fund accounts for a self-insurance program which provides medical, prescription, dental and life insurance benefits to the District's employees. The Workers' Comp fund accounts for the payment of premiums and claims to be paid to the State workers' compensation agency.

Fiduciary Funds

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation and Measurement Focus

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end.

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and nonmajor funds are aggregated into a single column. The internal service fund is presented on a separate proprietary fund statement. Fiduciary funds are reported by fund type.

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation and Measurement Focus (continued)

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The private purpose trust funds are reported using the flow of economic resources measurement focus. Agency funds do not report operations; therefore, no measurement focus is needed.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, and student fees.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (continued)

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures/Expenses On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as intergovernmental revenue. Unused donated commodities are reported 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 governmental funds.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the fund and function level within each fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

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

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Process (continued)

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 District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal 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 of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by The District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006. Prior to year-end, the District requested and received an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

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 is legally enacted by the Board of Education.

Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, must be approved by the Board of Education. The Board has authorized the treasurer to allocate appropriations among object level expenditures within each function.

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The District had monthly supplemental appropriation resolutions during fiscal year 2006.

The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts on the statements of budgetary comparisons represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments (continued)

During the fiscal year all investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and one-day repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the fiscal year amounted to \$545,725. The amount allocated from other funds during fiscal year 2006 amounted to \$161,508.

For the District, all investment earnings accrue to the General Fund, Capital Fund, Auxiliary Service Fund, one Expendable and two Non-Expendable Trust Funds as authorized by board resolution. Interest income earned in fiscal year 2006 totaled \$1,162,948.

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization.

I. Capital Assets

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (continued)

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

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

J. Interfund Balances

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

K. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *"Accounting for Compensated Absences."*

Vacation leave benefits are accrued as a liability as the benefits are earned if a) the employees' rights to receive compensation are attributable to services already rendered and b) it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

M. Net Assets

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

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

N. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure.

Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, debt service, budget stabilization, capital projects, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for service for the health-related insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the proprietary fund.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activities between governmental funds are eliminated for reporting in the statement of activities.

Q. Estimates

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

S. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES

A. Changes in Accounting Principles

In fiscal year 2006, the District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries;” GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation;” and GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statement when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES (Continued)

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2006.

B. Restatement of Fund Balances

During the current year, it was determined that a cash transfer was recorded incorrectly in the previous year. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund was restated from \$758,322 at June 30, 2005 to \$1,347,271. The correction had the following effects on fund balances previously reported:

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance at 6/30/05 as previously stated	\$ 1,491,928	\$ 1,789,237	\$ -	\$ 29,256,098	\$ 5,473,001	\$ 38,010,264
Fund reclassification to a Major Fund	-	-	3,674,554	-	(3,674,554)	-
Restatement of prior year cash receipt	<u>588,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(588,949)</u>	<u>-</u>
Fund balance at 6/30/05 as restated	<u>\$ 2,080,877</u>	<u>\$ 1,789,237</u>	<u>\$ 3,674,554</u>	<u>\$ 29,256,098</u>	<u>\$ 1,209,498</u>	<u>\$ 38,010,264</u>

In addition to the corrections above, it was determined that the long-term liabilities were understated. Governmental net assets were affected as follows:

	<u>Governmental Activities</u>
Total net assets at 6/30/05 as previously reported	\$ 20,644,640
Restatement of bonds	<u>(1,047,957)</u>
Ttotal net assets at 6/30/05 as restated	<u>\$ 19,596,683</u>

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2006, included the following individual fund deficits:

Lunchroom	\$	241,310
Alternative Education		1,471
IDEA-B		12,186
Title I, Disadvantaged Children		33,913
ELSE		404

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from accrued liabilities.

B. Compliance

The following funds had original and final appropriations plus encumbrances in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code:

	<u>Original</u>	<u>Final</u>
DPIA Special Revenue Fund	\$ 351,627	\$ -
Ohio Reads Special Revenue Fund	1,818	-
Miscellaneous State Grants Special Revenue Fund	-	208
Permanent Improvement Capital Projects Fund	-	119,583

The following fund had expenditures plus encumbrances in excess of final appropriations contrary to Section 5705.41 (B), Ohio Revised Code.

Ohio Reads Special Revenue Fund	\$	2,437
IDEA Part B - Special Education Special Revenue Fund		23,141
Title I Special Revenue Fund		26,054
Title V - Innovative Programs Special Revenue Fund		249
Drug Free Schools Grant Special Revenue Fund		75
Title II-A Special Revenue Fund		6,513

NOTE 5 – EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year-end, the District had \$5,525 in undeposited cash on hand which is included on the basic financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents.”

B. Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the District’s deposits was \$15,869,706 and the bank balance was \$16,642,845. Of the bank balance \$200,000 was covered by Federal depository insurance and \$16,442,845 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions’ trust department or agent, but not in the District’s name. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District has no deposit policy for custodial risk beyond the requirement of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

C. Investments

Investments are reported at fair value. As of June 30, 2006, the District had the following investments:

	Fair Value	Maturity
Repurchase Agreements	\$ 1,354,600	Daily
STAROhio	1,154,554	Avg 33 days
Total Investments	\$ 2,509,154	

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase to maximize the returns on the excess cash balances consistent with the safety of the monies and the desired liquidity of the investments.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Credit Risk STAROhio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk The District places no limit on the amount it may invest in any one issuer. The following is the District's allocation as of June 30, 2006:

	<u>Percentage of Investments</u>
Repurchase Agreements	54.0%
STAROhio	46.0%

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005. Assessed values for real property are established by the State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2005, were levied after April 1, 2006 and are collected 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.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 – PROPERTY TAXES (CONTINUED)

Tangible personal property tax revenue received during calendar year 2006 (other than public utility) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at varying percentages of true value. 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 District prior to June 30.

The Ashtabula County Treasurer collects property tax on behalf of the District. The Ashtabula County Auditor remits to the District the taxes collected. Tax settlements are made each February and August for real property taxes and each June and October for personal property taxes. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

The assessed values of real and tangible personal property on which the 2006 taxes were collected were as follows:

	2005		2006	
	Second-Half Collections		First-Half Collections	
	Amount	Percent	Amount	Percent
Real Property	\$ 362,938,060	83.36%	\$ 396,655,940	83.47%
Public Utility Personal Property	31,226,320	7.17%	30,574,190	6.43%
Tangible Personal Property	41,234,190	9.47%	47,960,960	10.10%
Total Assessed Value	<u>\$ 435,398,570</u>	<u>100.00%</u>	<u>\$ 475,191,090</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$52.00		\$52.00	

Accrued property taxes receivables include real property, tangible personal property and public utility taxes which are measurable as of June 30, 2006 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 is recognized as revenue. The amount available to the District as an advance at June 30, 2006 was \$4,343,520 in the General Fund, \$1,320,907 in the Bond Retirement Fund and \$620,885 in the Permanent Improvement Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified basis the revenue has been deferred.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 – RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, accounts (student fees), intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, and the stable condition of State programs.

A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities	
Property taxes	\$ 14,248,127
Accounts	3,177
Intergovernmental	<u>492,359</u>
Total	\$ <u><u>14,743,663</u></u>

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 – CAPITAL ASSETS

Fixed asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at 6/30/2005	Additions	Reductions	Balance at 6/30/2006
Governmental Activities:				
<i>Capital assets, not being depreciated</i>				
Land	\$ 376,369	\$ -	\$ -	\$ 376,369
Construction in progress	16,225,017	25,117,090	-	41,342,107
Total capital assets, not being depreciated	<u>16,601,386</u>	<u>25,117,090</u>	<u>-</u>	<u>41,718,476</u>
<i>Capital assets, being depreciated</i>				
Other improvements	616,272	2,178	-	618,450
Buildings	11,623,421	721,651	-	12,345,072
Furniture and equipment	6,558,644	644,286	(35,090)	7,167,840
Vehicles	2,053,238	265,201	-	2,318,439
Textbooks	2,790,202	-	-	2,790,202
Total capital asset, being depreciated	<u>23,641,777</u>	<u>1,633,316</u>	<u>(35,090)</u>	<u>25,240,003</u>
<i>Less: Accumulated depreciation:</i>				
Other improvements	(127,601)	(34,128)	-	(161,729)
Buildings	(7,191,937)	(282,787)	-	(7,474,724)
Furniture and equipment	(3,855,108)	(423,395)	27,812	(4,250,691)
Vehicles	(1,352,364)	(143,486)	-	(1,495,850)
Textbooks	(1,886,957)	(302,690)	-	(2,189,647)
Total accumulated depreciation	<u>(14,413,967)</u>	<u>(1,186,486)</u>	<u>27,812</u>	<u>(15,572,641)</u>
Total capital assets being depreciated, net	<u>9,227,810</u>	<u>446,830</u>	<u>(7,278)</u>	<u>9,667,362</u>
Governmental activities capital asset, net	<u>\$ 25,829,196</u>	<u>\$ 25,563,920</u>	<u>\$ (7,278)</u>	<u>\$ 51,385,838</u>

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 853,842
Special	19,939
Vocational	2,799
Support services	
Pupil	5,580
Instructional staff	14,261
Administration	44,718
Fiscal	7,273
Business	854
Operation and maintenance of plant	29,594
Pupil Transportation	146,593
Operation of non-instructional services:	
Food services	23,546
Other non-instructional services	14,202
Extracurricular Activities	<u>23,285</u>
 Total Governmental Activities	 <u><u>\$ 1,186,486</u></u>

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – LONG-TERM OBLIGATIONS

The balance of the District’s governmental activities long-term obligations at June 30, 2005 has been restated. The OSF Construction Bonds have been restated due to accretion relating to the Capital Appreciation Bonds. The balance increased by \$1,047,957. See additional information in Note 3.

A summary of changes in long-term obligations for the year ended June 30, 2006, are as follows:

	Restated Balance at 6/30/2005	Additions	Deductions	Balance at 6/30/2006	Amounts Due in One Year
General Obligation Bonds:					
OSF Construction Bonds	\$ 41,020,000	\$ -	\$ (1,260,000)	\$ 39,760,000	\$ 420,000
OSF Construction Capital Appreciation Bonds	1,128,657	-	-	1,128,657	374,796
Unamortized Premium	439,639	-	(17,241)	422,398	-
Accretion on Capital Appreciation Bonds	1,047,957	349,318	-	1,397,275	570,204
Total General Obligation Bond	43,636,253	349,318	(1,277,241)	42,708,330	1,365,000
Other Long-Term Obligations:					
Compensated Absences	3,302,265	513,430	(255,393)	3,560,302	1,238,394
Total Long-Term Liabilities	\$ 46,938,518	\$ 862,748	\$ (1,532,634)	\$ 46,268,632	\$ 2,603,394

The District entered into the Expedited Local Partnership Plan with the Ohio Schools Facility Commission to build new schools. A 7 mill bond issue passed on May 2, 2002, for the purpose of constructing new schools. The district issued bonds on August 7, 2002 for \$40,000,000 (Series A) and issued additional bonds on February 1, 2003 for \$ 4,123,700 (Series B). Principal and interests requirements to retire bonds outstanding at June 30, 2006 are as follows:

	Series A		Series B	
	Principal	Interest	Principal	Interest
2007	\$ 374,796	\$ 2,265,556	\$ 420,000	\$ 70,325
2008	301,928	2,338,425	430,000	61,502
2009	243,234	2,397,118	440,000	51,270
2010	1,025,000	1,677,928	450,000	38,910
2011	1,055,000	1,641,512	465,000	24,720
2012-2016	6,075,000	7,546,503	688,699	297,221
2017-2021	7,515,000	6,090,866	-	-
2022-2026	9,455,000	4,096,281	-	-
2027-2031	11,955,000	1,539,256	-	-
	\$ 37,994,958	\$ 29,593,445	\$ 2,893,699	\$ 543,948

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – LONG-TERM OBLIGATIONS (CONTINUED)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2006, are a voted debt margin of \$42,767,198 and an unvoted debt margin of \$475,191.

NOTE 10 – COMPENSATED ABSENCES

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

<u>Length of Service</u>	<u>Vacation Leave</u>
After 1 Year	2 Weeks
After 7 Years	3 Weeks
After 17 Years	4 Weeks

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

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

The Superintendent earns 25 days vacation per year which they are required to take that year. They do not have the option to exchange for cash or carry over to the following year.

The Treasurer earns 25 days vacation per year and may carry over 5 days from one year to the next.

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

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

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 – COMPENSATED ABSENCES (CONTINUED)

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

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

The plan, for those who are eligible, is as follows:

1. The R.I. payment shall be equal to 35% of the retiree's placement on the salary schedule for the last full school year worked.
2. The R.I. payment shall be made the first certified pay in January of the following calendar year.
3. The end of the school year in which a bargaining unit member meets the criteria for the R.I. Plan as outlined above is the only time the plan is offered to the employee.

NOTE 11 – RISK MANAGEMENT

A. General Risk

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. Other liability insurance includes \$20,000 for the district superintendent and \$50,000 for the district treasurer. Additionally the district has commercial crime coverage of \$10,000.

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

The District maintains replacement cost insurance on buildings and contents in the amount of \$57,317,612. Other property insurance includes \$2,662,980 for musical instrument, related equipment and accessories and electronic data processing hardware.

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

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 – RISK MANAGEMENT (CONTINUED)

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing 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 Ohio School Boards Association. The Executive Director 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of this grouping and representation with other participants in the GRP. The workers' compensation experience for 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 GRP rather than its individual performance is compared to the overall savings percentage of the GRP. A participant will either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

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

This self-insurance fund was established January 1994, for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the general fund and certain nonmajor governmental funds. Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier.

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$1,128,000 at June 30, 2006.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 – RISK MANAGEMENT (CONTINUED)

C. Health Insurance (continued)

A summary of changes in self-insurance claims for the current and two proceeding years follows:

Fiscal <u>Year</u>	Beginning <u>Balance</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Ending <u>Balance</u>
2006	\$ 1,111,800	\$ 4,164,907	\$ (4,148,707)	\$ 1,128,000
2005	1,056,900	4,072,291	(4,017,391)	1,111,800
2004	1,009,800	4,002,745	(3,955,645)	1,056,900

NOTE 12 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling too free (800) 878-5853. It is also posted on SERS’s website, www.ohsers.org under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$689,843, \$721,320, and \$662,994, respectively; 55.5% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. \$306,899 represents the unpaid contribution for fiscal year 2006.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 12 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System (continued)

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090; or by visiting the STRS Ohio website, www.strsohio.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

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.

Plan members are required to contribute 10% of their annual covered salaries and the District is required to contribute 14%. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

The District's required contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,548,182, \$2,546,222, and \$2,587,676, respectively; 92.8% has been contributed for fiscal year 2006, and 100% for fiscal years 2005, and 2004.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 12 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 13 – POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 is included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization fund. For the District, this amount equaled \$182,013 during fiscal 2006.

STRS pays health care benefits from the Health Care Reserve fund. At June 30, 2006 the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the District's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42% of covered payroll, a decrease of .01% from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2% for each employer's SERS salaries. For the District, the amount to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$261,837.

The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million and had 59,492 participants eligible to receive health care benefits.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 – INTERFUND TRANSACTIONS

A. Interfund balances

Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 343,163

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

B. Interfund transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers From	Transfers To:	
	General Funds	Other Non-major Governmental Funds
General Fund	\$ -	\$ 7,368
Other Non-Major Funds	199	-
Total	\$ 199	\$ 7,368

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

Interfund transfers between governmental funds are eliminated for reporting in the Statement of Activities.

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 – BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis), presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
4. Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as “fund reclassifications.”

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	
Budget basis	\$ (44,072)
Net adjustment for revenue accruals	282,619
Net adjustment for expenditure accruals	(64,258)
Net adjustment for other sources/uses	(24,259)
Adjustment for encumbrances	249,647
GAAP basis	<u><u>\$ 399,677</u></u>

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16 – CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2006.

B. Litigation

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

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed ". . . the Ohio General Assembly to enact a school funding scheme that is thorough and efficient."

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 – STATUTORY RESERVES

The District is required by state law to annually set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the year ended June 30, 2006, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside reserve balance as of June 30, 2005	\$ (819,212)	\$ -	\$ 7,262
Current year set-aside requirement	673,146	673,146	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(730,551)</u>	<u>(1,833,104)</u>	<u>(6,709)</u>
Totals	<u>\$ (876,617)</u>	<u>\$ (1,159,958)</u>	<u>\$ 553</u>
Balance carried forward to FY 2007	<u>\$ (876,617)</u>	<u>\$ -</u>	<u>\$ 553</u>

Ashtabula Area City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 17 – STATUTORY RESERVES (CONTINUED)

The District had qualifying expenditures during the year that reduced the set-aside amounts for textbooks and capital acquisition to below zero. The extra amount for textbooks may be used to reduce the set-aside requirements in future years; however, the extra amount for capital acquisitions may not be used in future years and is not presented as being carried forward to the next fiscal year.

NOTE 18 – OPERATING LEASES

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

A 60-month lease with Xerox, which began in October 2002. Copiers for use in various schools with an option for purchase at the end of the lease.

A 48-month lease with Xerox, which began in October 2002. Copiers for use in various schools with an option for purchase at the end of the lease.

A 60-month lease with Xerox, which began in August 2005. Copiers for use in various schools with an option for purchase at the end of the lease.

The total rental expense for the year ended June 30, 2006 for the various operating leases was \$106,111.

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

FY2007	\$	96,620
FY2008		91,308
FY2009		89,537
FY2010		89,537
Total	\$	<u>367,002</u>

Warehouse property was leased for stockroom supplies and total rent expense paid for this lease for the year ended June 30, 2006, was \$7,200. Property was leased for parking for Lakeside high school and a total rent expense for this lease for the year ended June 30, 2006 was \$2,400.

NOTE 19 – CONTRACTUAL COMMITMENTS

The District has contracted with various contractors for the Lakeside High School project. The total cost of the project is \$46,197,265. As of June 30, 2006, the District has paid \$44,369,188 on the contracts and \$1,828,077 remains outstanding on the contracts

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Education
Ashtabula Area City School District
Ashtabula, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 16, 2008, wherein we noted that the District adopted *Government Accounting Standards Board Statements No. 42, 46, and 47*. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Ashtabula Area City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 16, 2008.

Board of Education
Ashtabula Area City School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ashtabula Area City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-1 and 2006-2.

We also noted certain immaterial instances of noncompliance which we have reported to management of the Ashtabula Area City School District in a separate letter dated September 16, 2008.

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

Cini & Panichi, Inc.

Cleveland, Ohio
September 16, 2008

**Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Board of Education
Ashtabula Area City School District
Ashtabula, Ohio

Compliance

We have audited the compliance of the Ashtabula Area City School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Ashtabula Area City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Ashtabula Area City School District's management. Our responsibility is to express an opinion on the Ashtabula Area City School District's compliance based on our audit.

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

In our opinion, the Ashtabula Area City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District as of and for the year ended June 30, 2006, and have issued our report there on dated September 16, 2008, wherein we noted that the District adopted *Government Accounting Standards Board Statements No. 42, 46, and 47*.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Ashtabula Area City School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Ashtabula Area City School District's basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Ciuni & Panichi, Inc.

Cleveland, Ohio
September 16, 2008

Ashtabula Area City School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture:						
Passed-Through Ohio Department of Education:						
Food Distribution	10.550	N/A	\$ -	\$ 87,722	\$ -	\$ 86,314
Nutrition Cluster:						
School Breakfast Program	10.553	05-PU-2005	60,647	-	60,647	-
School Breakfast Program	10.553	05-PU-2006	<u>174,166</u>	<u>-</u>	<u>174,166</u>	<u>-</u>
Subtotal National School Breakfast Program			<u>234,813</u>	<u>-</u>	<u>234,813</u>	<u>-</u>
School Lunch Program	10.555	LL-P1-2005	1,139	-	1,139	-
School Lunch Program	10.555	LL-P1-2006	4,102	-	4,102	-
School Lunch Program	10.555	LL-P4-2005	175,457	-	175,457	-
School Lunch Program	10.555	LL-P4-2006	<u>535,911</u>	<u>-</u>	<u>535,911</u>	<u>-</u>
Subtotal National School Lunch Program			<u>716,609</u>	<u>-</u>	<u>716,609</u>	<u>-</u>
Total Nutrition Cluster			<u>951,422</u>	<u>-</u>	<u>951,422</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>951,422</u>	<u>87,722</u>	<u>951,422</u>	<u>86,314</u>
U.S. Department of Education:						
Passed-Through Ohio Department of Education:						
Title I	84.010	C1-S1-2005	369,225	-	323,028	-
Title I	84.010	C1-S1-2006	1,842,493	-	1,856,306	-
Title I	84.010	C1-SK-2005	67,859	-	11,495	-
Title I	84.010	C1-SK-2006	<u>79,073</u>	<u>-</u>	<u>90,371</u>	<u>-</u>
Total Title I			<u>2,358,650</u>	<u>-</u>	<u>2,281,200</u>	<u>-</u>
Special Education Cluster:						
Title VI-B	84.027	6B-SF-2005	145,538	-	222,465	-
Title VI-B	84.027	6B-SF-2006	<u>1,147,211</u>	<u>-</u>	<u>1,167,880</u>	<u>-</u>
Subtotal Title VI-B			<u>1,292,749</u>	<u>-</u>	<u>1,390,345</u>	<u>-</u>
Special Education – Preschool Grant	84.173	PG-S1-2005	1,488	-	4,940	-
Special Education – Preschool Grant	84.173	PG-S1-2006	<u>31,586</u>	<u>-</u>	<u>30,624</u>	<u>-</u>
Subtotal Preschool Grant			<u>33,074</u>	<u>-</u>	<u>35,564</u>	<u>-</u>
Total Special Education Cluster			<u>1,325,823</u>	<u>-</u>	<u>1,425,909</u>	<u>-</u>
Safe and Drug Free Schools	84.186	DR-S1-2005	(1,773)	-	6,793	-
Safe and Drug Free Schools	84.186	DR-S1-2006	<u>35,954</u>	<u>-</u>	<u>27,161</u>	<u>-</u>
Total Safe and Drug Free Schools			<u>34,181</u>	<u>-</u>	<u>33,954</u>	<u>-</u>
Innovative Education Program Strategy	84.298	C2-S1-2005	(4,672)	-	-	-
Innovative Education Program Strategy	84.298	C2-S1-2006	<u>15,675</u>	<u>-</u>	<u>13,665</u>	<u>-</u>
Total Innovative Education Program Strategy			<u>11,003</u>	<u>-</u>	<u>13,665</u>	<u>-</u>
Enhancing Education Through Technology	84.318	TJ-S1-2005	(579)	-	4,305	-
Enhancing Education Through Technology	84.318	TJ-S1-2006	27,808	-	29,966	-
Enhancing Education Through Technology	84.318	TJ-SL-2005	(402)	-	2,289	-
Enhancing Education Through Technology	84.318	TJ-SL-2006	<u>172,642</u>	<u>-</u>	<u>155,718</u>	<u>-</u>
Total Enhancing Education Through Technology			<u>199,469</u>	<u>-</u>	<u>192,278</u>	<u>-</u>
Comprehensive School Reform Program	84.332	RF-CC-2005	<u>516</u>	<u>-</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of this schedule

Ashtabula Area City School District

Schedule of Expenditures of Federal Awards (Continued)

For the year ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
Rural Education	84.358	RU-S1-2005	(50,795)	-	5,023	-
Rural Education	84.358	RU-S1-2006	110,352	-	106,965	-
Total Rural Education			59,557	-	111,988	-
Title III	84.365	T3-S1-2005	379	-	5,277	-
Title III	84.365	T3-S1-2006	37,368	-	36,811	-
Total Title III			37,747	-	42,088	-
Title II-A	84.367	TR-S1-2005	37,217	-	51,383	-
Title II-A	84.367	TR-S1-2006	343,579	-	351,387	-
Total Title II-A			380,796	-	402,770	-
Total U.S. Department of Education			4,407,742	-	4,503,852	-
U.S. Department of Health & Human Services:						
Passed-Through Ohio Department of Human Services; passed through Ohio Department of Mental Retardation and Developmental Disabilities:						
Medicaid Cluster:						
Medical Assistance Program - Title XIX - 2005	93.778	N/A	-	-	169,372	-
Medical Assistance Program - Title XIX - 2006	93.778	N/A	169,372	-	-	-
State Children's Health Insurance Program	93.767	N/A	15,779	-	-	-
Total Department of Health & Human Services			185,151	-	169,372	-
Total Expenditures of Federal Awards			\$ 5,544,315	\$ 87,722	\$ 5,624,646	\$ 86,314

The accompanying notes are an integral part of this schedule

Ashtabula Area City School District

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2006

Note 1: Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Non-Cash Support

The District receives non-cash support in the form of food subsidies from the National School Lunch Program ("NSLP"), CFDA 10.550. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

CFDA – Catalog of Federal Domestic Assistance

Ashtabula Area City School District

Schedule of Findings
OMB Circular A-133 Section .505

June 30, 2006

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(I)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .501?	No
(d)(I)(vii)	Major Programs	Title I CFDA No. 84.010 Enhancing Education Through Technology CFDA No. 84.318 Medicaid Cluster CFDA No. 93.778
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

Ashtabula Area City School District

Schedule Of Findings (Continued)
OMB Circular A-133 Section .505

June 30, 2006

2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

Findings	Findings Summary															
2006-1	<p>Per ORC Section 5705.41 (B), no subdivision or taxing unit is to expend money unless it has been appropriated. The following funds had expenditures plus encumbrances in excess of final appropriations:</p> <p>Special Revenue Funds:</p> <table> <tr> <td>Ohio Reads Fund</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">2,085</td> </tr> <tr> <td>IDEA Part B - Special Education Fund</td> <td></td> <td style="text-align: right;">23,141</td> </tr> <tr> <td>Title V - Innovative Programs Fund</td> <td></td> <td style="text-align: right;">249</td> </tr> <tr> <td>Drug Free Schools Grant Fund</td> <td></td> <td style="text-align: right;">75</td> </tr> <tr> <td>Title II-A Fund</td> <td></td> <td style="text-align: right;">6,513</td> </tr> </table>	Ohio Reads Fund	\$	2,085	IDEA Part B - Special Education Fund		23,141	Title V - Innovative Programs Fund		249	Drug Free Schools Grant Fund		75	Title II-A Fund		6,513
Ohio Reads Fund	\$	2,085														
IDEA Part B - Special Education Fund		23,141														
Title V - Innovative Programs Fund		249														
Drug Free Schools Grant Fund		75														
Title II-A Fund		6,513														
2006-2	<p>Per ORC Section 5705.39, total appropriations from each fund shall not exceed the total estimated revenue. The following funds had original and final appropriations plus carryover encumbrances in excess estimated resources:</p> <table> <thead> <tr> <th></th> <th style="text-align: center;"><u>Original</u></th> <th style="text-align: center;"><u>Final</u></th> </tr> </thead> <tbody> <tr> <td>DPIE Fund</td> <td style="text-align: right;">\$ 351,627</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td>Ohio Reads</td> <td style="text-align: right;">1,818</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Miscellaneous State Grants</td> <td style="text-align: right;">-</td> <td style="text-align: right;">208</td> </tr> <tr> <td>Permanent Improvement</td> <td style="text-align: right;">-</td> <td style="text-align: right;">119,583</td> </tr> </tbody> </table>		<u>Original</u>	<u>Final</u>	DPIE Fund	\$ 351,627	\$ -	Ohio Reads	1,818	-	Miscellaneous State Grants	-	208	Permanent Improvement	-	119,583
	<u>Original</u>	<u>Final</u>														
DPIE Fund	\$ 351,627	\$ -														
Ohio Reads	1,818	-														
Miscellaneous State Grants	-	208														
Permanent Improvement	-	119,583														

3. Findings for Federal Awards

There were no findings for federal awards to report in 2006.

Ashtabula Area City School District

Schedule of Prior Audit Findings
OMB Circular A-133 Section .315(b)

June 30, 2006

Findings	Findings Summary	Corrected	Responsible Contact Person; Not Corrected, Partially Corrected
2005-1	Per ORC Section 5705.41 (B), no subdivision or taxing unit is to expend money unless it has been appropriated.	No	Michele Tullai, Treasurer; Not Corrected, reissued as 2006-1.
2005-2	Per ORC Section 5705.39, total appropriations from each fund shall not exceed the total estimated revenue.	No	Michele Tullai, Treasurer; Not Corrected, reissued as 2006-2.

Ashtabula Area City School District

**401 West 44th Street
Ashtabula, Ohio 44005
(440) 993-2500**

**Response To Findings Associated With Audit Conducted
In Accordance With *Government Auditing Standards***

June 30, 2006

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2006-1	Michele Tullai, Treasurer, will monitor actual expenditures more closely, to ensure they do not exceed the budgeted amounts.	Fiscal year 2007	Michele Tullai, Treasurer
2006-2	Michele Tullai, Treasurer, will monitor budgeting process more closely, to ensure the appropriation plus prior year encumbrances do not exceed estimated resources.	Fiscal year 2007	Michele Tullai, Treasurer



Mary Taylor, CPA
Auditor of State

ASHTABULA AREA CITY SCHOOL DISTRICT

ASHTABULA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2008**