



Mary Taylor, CPA  
Auditor of State



**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Conneaut Area City School District  
Ashtabula County  
400 Mill Street, Suite B  
Conneaut, Ohio 44030

To The Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, (the District), as of and for the year ended June 30, 2007, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, as of June 30, 2007, and the respective changes in financial position 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

April 7, 2008

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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The management's discussion and analysis of Conneaut Area City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key Financial Highlights for fiscal year 2007 are as follows:

- Total net assets of governmental activities decreased \$449,739 which represents a 1.03 percent decrease from fiscal year 2006.
- Total revenues of \$21,343,899 were comprised of general revenues in the amount of \$17,852,989 or 83.64 percent and program specific revenues from charges for services, grants and contributions in the amount of \$3,490,910 or 16.36 percent.
- Total assets of governmental activities decreased by \$1,224,673 which includes decreases to taxes receivable, intergovernmental receivables, and capital assets offset with cash and cash equivalent increases of \$756,419.
- The School District had \$21,793,638 in expenses related to governmental activities; only \$3,490,910 of these expenses were offset by program specific charges for services, sales, grants or contributions. General revenues (primarily taxes and school foundation) of \$17,852,989 helped to provide for these programs.
- The general fund balance was \$2,481,730 at fiscal year end, up from \$1,867,469 at June 30, 2006.

**Using this Annual Financial Report**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Conneaut Area City School District, the general fund, the bond retirement debt service fund, and the permanent improvement capital projects fund are the more significant funds.

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2007?" 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. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District.

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

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement debt service fund and the permanent improvement capital projects fund.

*Governmental Funds*

Most of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you 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.



**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

**The School District as a Whole**

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net Assets for 2007 compared to 2006:

(Table 1)  
 Net Assets  
 Governmental Activities

	2007	Restated 2006	Change
<b>Assets</b>			
Current and Other Assets	\$12,138,514	\$12,103,361	\$35,153
Capital Assets	<u>42,933,709</u>	<u>44,193,535</u>	<u>(1,259,826)</u>
<i>Total Assets</i>	<u>55,072,223</u>	<u>56,296,896</u>	<u>(1,224,673)</u>
<b>Liabilities</b>			
Current Liabilities	5,117,499	5,375,906	(258,407)
Long-Term Liabilities			
Due within One Year	369,916	627,202	(257,286)
Due in More than One Year	<u>6,366,843</u>	<u>6,626,084</u>	<u>(259,241)</u>
<i>Total Liabilities</i>	<u>11,854,258</u>	<u>12,629,192</u>	<u>(774,934)</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	37,617,814	38,457,640	(839,826)
Restricted for:			
Capital Projects	2,434,852	2,339,881	94,971
Debt Service	1,094,051	1,136,543	(42,492)
Set Asides	462,097	373,839	88,258
Other Purposes	346,608	788,450	(441,842)
Unrestricted	<u>1,262,543</u>	<u>571,351</u>	<u>691,192</u>
<i>Total Net Assets</i>	<u>\$43,217,965</u>	<u>\$43,667,704</u>	<u>(\$449,739)</u>

Total assets decreased \$1,224,673 due to an additional year of depreciation being taken on capital assets. This was offset by an increase in cash and cash equivalents due to the School District making budget and personnel reductions totaling \$1.2 million in fiscal year 2007.

Total liabilities decreased \$774,934 or 6.14 percent due to the decrease in deferred revenue and long-term liabilities. Long-term liabilities decreased due to the School District making the annual debt service payments.

Unrestricted net assets increased \$691,192 due to an increase in general fund cash and cash equivalents in fiscal year 2007. Net assets restricted for other purposes decreased \$441,842 due to a decrease in grant monies received. By comparing assets and liabilities, one can see the overall position of the School District has worsened as evidenced by the decrease in net assets of \$449,739.

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2007 compared to 2006.

(Table 2)  
 Change in Net Assets  
 Governmental Activities

	2007	Restated 2006	Change
<b>Revenues</b>			
<b><i>Program Revenues</i></b>			
Charges for Services and Sales	\$544,835	\$593,205	(\$48,370)
Operating Grants and Contributions	2,924,807	3,656,762	(731,955)
Capital Grants and Contributions	21,268	65,215	(43,947)
<b><i>Total Program Revenues</i></b>	<b>3,490,910</b>	<b>4,315,182</b>	<b>(824,272)</b>
<b><i>General Revenues</i></b>			
Property and Other Local Taxes	5,172,096	5,530,149	(358,053)
Grants and Entitlements not Restricted	12,024,131	11,657,220	366,911
Investment Earnings	367,734	286,361	81,373
Gain on Sale of Capital Assets	131,507	0	131,507
Miscellaneous	157,521	94,607	62,914
<b><i>Total General Revenues</i></b>	<b>17,852,989</b>	<b>17,568,337</b>	<b>284,652</b>
<b><i>Total Revenues</i></b>	<b>21,343,899</b>	<b>21,883,519</b>	<b>(539,620)</b>
<b>Program Expenses</b>			
Current:			
Instruction:			
Regular	10,086,040	10,054,711	31,329
Special	2,346,161	2,821,279	(475,118)
Vocational	65,670	165,078	(99,408)
Support Services:			
Pupils	1,127,556	1,231,546	(103,990)
Instructional Staff	1,369,736	1,718,033	(348,297)
Board of Education	32,759	36,098	(3,339)
Administration	1,483,089	1,890,394	(407,305)
Fiscal	402,376	456,039	(53,663)
Operation and Maintenance of Plant	2,189,624	2,038,690	150,934
Pupil Transportation	959,627	929,391	30,236
Central	75,360	51,639	23,721
Extracurricular Activities	459,170	476,337	(17,167)
Operation of Non-Instructional Services:			
Food Service Operations	894,343	890,877	3,466
Other Non-Instructional Services	0	45,097	(45,097)
Interest and Fiscal Charges	302,127	321,930	(19,803)
<b><i>Total Program Expenses</i></b>	<b>21,793,638</b>	<b>23,127,139</b>	<b>(1,333,501)</b>
<b><i>Decrease in Net Assets</i></b>	<b>(449,739)</b>	<b>(1,243,620)</b>	<b>793,881</b>
Net Assets Beginning of Year	43,667,704	44,911,324	(1,243,620)
<b><i>Net Assets End of Year</i></b>	<b>\$43,217,965</b>	<b>\$43,667,704</b>	<b>(\$449,739)</b>

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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***Governmental Activities***

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus School District's dependence upon property taxes is hampered by a lack of revenue growth so it must regularly return to the voters to maintain a constant level of service. Property taxes made up 24.23 percent of revenues for governmental activities for Conneaut Area City School District in fiscal year 2007 versus 25.27 percent in fiscal year 2006. The School District has not gone to the community for an operating levy since 1991. The School District has prudently managed expenses within revenues over the prior fifteen years. The School District placed an emergency levy on the November ballot. Due to the defeat of emergency levy in November 2006, the School District has made budget and personnel reductions totaling \$1.2 million in fiscal year 2007. The School District has carefully planned its financial existence by forecasting its revenue and expenses over the next five years.

Although the School District relies upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset operating costs.

Grants and entitlements not restricted for a specific program increased \$366,911. This revenue is made up of homestead and rollback, the personal property tax exemption, well as the School Foundation revenues. The School District relies heavily upon School Foundation revenue to support operations of the School District.

As one can see, approximately 57.35 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff, and plant and business operations encompass an additional 35.05 percent. The remaining amount of program expenses, roughly 7.60 percent, is budgeted to facilitate non-instructional services of the School District, interest payments on debt and numerous extracurricular activities. All instructional expenses decreased due to the School District making budget and personnel reductions totaling \$1.2 million and receiving less grant monies in fiscal year 2007. This decrease was partially offset by increases in personnel salaries based on negotiated agreements and an increase in healthcare costs.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2007 compared to 2006.

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

(Table 3)

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2007	2007	2006	2006
Instruction	\$12,497,871	\$10,823,733	\$13,041,068	\$10,947,983
Support Services:				
Pupils and Instructional Staff	2,497,292	1,766,079	2,949,579	2,000,438
Board of Education, Administration, and Fiscal	1,918,224	1,825,413	2,382,531	2,286,207
Operation and Maintenance of Plant	2,189,624	2,184,142	2,038,690	2,013,908
Pupil Transportation	959,627	938,359	929,391	907,824
Central	75,360	66,014	51,639	(7,877)
Extracurricular Activities	459,170	281,249	476,337	264,368
Operation of Non- Instructional Services:				
Food Service Operations	894,343	115,612	890,877	79,172
Other Non-Instructional Services	0	0	45,097	(1,996)
Interest and Fiscal Charges	302,127	302,127	321,930	321,930
<i>Total Expenses</i>	<u>\$21,793,638</u>	<u>\$18,302,728</u>	<u>\$23,127,139</u>	<u>\$18,811,957</u>

The dependence upon general revenues for governmental activities is apparent as local property tax accounts for roughly 24.23 percent and grants and entitlements account for 56.34 percent of the total revenues in fiscal year 2007. This amount is approximately the same as in 2006. 86.60 percent of instructional activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 83.64 percent of total governmental revenues.

**The School District's Funds**

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,079,650 and expenditures of \$21,057,808. The net change in the general fund was an increase of \$614,261 due to revenues exceeding expenditures. The change in other governmental funds decreased \$541,671 due to the School District receiving less grant monies.

**General Fund Budgeting Highlights**

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

During the course of fiscal 2007, the School District amended its general fund budget numerous times, none significant. Many of the amendments are due to changes in expenditure priorities at the building levels. For the general fund, the final budget basis revenue estimate was \$16,549,840 representing a 2.96 increase from the original budget estimates of \$16,074,515. Most of this difference was due to conservative tax estimates in the area of real estate, tangible personal property and foundation revenues.

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

Actual budget basis expenditures totaled \$16,075,714 compared to the final estimate of \$16,260,476. This difference is due to the School District prudently managing expenditures.

The School District's general fund balance at the end of the fiscal year was \$2,626,960.

The School District uses a site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management. Building principals are given a per pupil allocation for textbook, instructional materials and equipment. HB 412 requires the School District to set aside three percent of certain general fund revenues for the purchase of textbooks and materials related to instruction which site-based budgets help to meet.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2007 the School District had \$42,933,709 invested in governmental activities capital assets. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

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

	2007	2006
Land	\$1,022,168	\$1,022,168
Land Improvements	1,314,608	1,319,478
Buildings and Improvements	38,237,995	39,309,384
Furniture and Fixtures	1,694,198	1,807,028
Vehicles	486,760	417,303
Textbooks	177,980	318,174
Total	\$42,933,709	\$44,193,535

For fiscal year 2007, capital assets decreased \$1,259,826. This decrease was due to an additional year of depreciation being taken. Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2007, this amounted to \$355,750 for each set aside. See Note 9 to the basic financial statements for additional information on the School District's capital assets and Note 19 for additional information regarding required set-asides.

***Debt***

At June 30, 2007, the School District had \$6,736,759 in long-term liabilities outstanding. Table 5 summarizes the long-term liabilities outstanding:

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

(Table 5)  
 Outstanding Long-Term Obligations

	Governmental Activities	
	2007	2006
2001 Classroom Facilities Improvement Bonds - 4.10 - 5.10%		
Current Interest Serial Bonds	\$3,785,000	\$4,205,000
Capital Appreciation Bonds	190,895	190,895
Accretion on Capital Appreciation Bonds	201,059	160,791
Current Issue Term Bonds	1,340,000	1,340,000
<i>Total General Obligation Bonds</i>	5,516,954	5,896,686
Asbestos Abatement Loan	0	2,701
Compensated Absences	1,219,805	1,353,899
<i>Totals</i>	\$6,736,759	\$7,253,286

The Classroom Facilities Improvement general obligation bonds were issued for the School District portion of the Ohio School Facilities Commission project. These bonds will be fully repaid in calendar year 2023. The Asbestos loan was fully repaid in fiscal year 2007.

The School District's overall legal debt margin was \$12,096,076 with an unvoted debt margin of \$181,762. See Note 15 detailed long term debt information.

**Challenges and Opportunities**

Conneaut Area City School District has continued to maintain the highest standards of service to our students, parents and community. The School District is always presented with challenges and opportunities. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. Recent national events and their impact on the Conneaut Area City School District and the surrounding area are very much under review and analysis. Economic recession has had major impact on our industries. We have limited local industry, but we are a much diversified community with many residents working outside our School District in varying types of employment.

The School District is not without its share of challenges. The need for additional funds for operating is seen as the newest challenge for the School District. Another example is seen in low interest rates being very good for issuing debt, but not attractive for maintaining investment revenues. And finally, actions of local and state governments continue to impact the School District. Like many school districts in the State of Ohio, the School District remains vigilant to financially meet the academic needs of all of the students as well as remain cost efficient in its operations.

As a result of the challenges mentioned, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Conneaut Area City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2007*  
*Unaudited*

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**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Linda Bryan, Treasurer at Conneaut Area City School District, 400 Mill Street, Suite B, Conneaut, Ohio 44030 or email at [linda.bryan@neomin.org](mailto:linda.bryan@neomin.org).

**Conneaut Area City School District**

*Statement of Net Assets*

*June 30, 2007*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,783,189
Accounts Receivable	5,911
Intergovernmental Receivable	275,071
Inventory Held for Resale	19,576
Materials and Supplies Inventory	43,565
Taxes Receivable	5,011,202
Nondepreciable Capital Assets	1,022,168
Depreciable Capital Assets, Net	<u>41,911,541</u>
<i>Total Assets</i>	<u>55,072,223</u>
<b>Liabilities</b>	
Accounts Payable	270,443
Accrued Wages	1,538,333
Contracts Payable	106,614
Intergovernmental Payable	414,515
Matured Compensated Absences Payable	179,438
Accrued Interest Payable	20,478
Deferred Revenue	2,587,678
Long-Term Liabilities:	
Due Within One Year	369,916
Due in More Than One Year	<u>6,366,843</u>
<i>Total Liabilities</i>	<u>11,854,258</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	37,617,814
Restricted for:	
Capital Projects	2,434,852
Debt Service	1,094,051
Set Asides	462,097
Other Purposes	346,608
Unrestricted	<u>1,262,543</u>
<i>Total Net Assets</i>	<u><u>\$43,217,965</u></u>

See accompanying notes to the basic financial statements



**Conneaut Area City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2007

	Program Revenues				Net Revenue/(Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions		Governmental Activities
			Capital Grants		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$10,086,040	\$154,288	\$542,481	\$0	(\$9,389,271)
Special	2,346,161	0	977,369	0	(1,368,792)
Vocational	65,670	0	0	0	(65,670)
Support Services:					
Pupils	1,127,556	0	345,556	0	(782,000)
Instructional Staff	1,369,736	0	385,657	0	(984,079)
Board of Education	32,759	0	0	0	(32,759)
Administration	1,483,089	0	92,811	0	(1,390,278)
Fiscal	402,376	0	0	0	(402,376)
Operation and Maintenance					
of Plant	2,189,624	2,644	2,838	0	(2,184,142)
Pupil Transportation	959,627	0	0	21,268	(938,359)
Central	75,360	0	9,346	0	(66,014)
Extracurricular Activities	459,170	120,537	57,384	0	(281,249)
Operation of Non-Instructional Services:					
Food Service Operations	894,343	267,366	511,365	0	(115,612)
Interest and Fiscal Charges	302,127	0	0	0	(302,127)
<i>Totals</i>	<u>\$21,793,638</u>	<u>\$544,835</u>	<u>\$2,924,807</u>	<u>\$21,268</u>	<u>(18,302,728)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	4,301,822
Debt Service	563,034
Capital Outlay	230,430
Classroom Facilities Maintenance	76,810

Grants and Entitlements not Restricted  
to Specific Programs

Investment Earnings	12,024,131
Gain on Sale of Capital Assets	367,734
Miscellaneous	131,507
	<u>157,521</u>

*Total General Revenues*

17,852,989

Change in Net Assets

(449,739)

*Net Assets Beginning of Year -  
Restated (See Note 3)*

43,667,704

*Net Assets End of Year*

\$43,217,965

See accompanying notes to the basic financial statements

**Conneaut Area City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2007*

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$2,267,375	\$847,743	\$1,402,440	\$1,800,806	\$6,318,364
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	464,825	0	0	0	464,825
Receivables:					
Taxes	4,127,367	581,349	226,864	75,622	5,011,202
Accounts	674	0	0	5,237	5,911
Intergovernmental	85,698	0	0	189,373	275,071
Interfund Receivable	45,463	0	0	0	45,463
Inventory Held for Resale	0	0	0	19,576	19,576
Materials and Supplies Inventory	40,680	0	0	2,885	43,565
<i>Total Assets</i>	<u>\$7,032,082</u>	<u>\$1,429,092</u>	<u>\$1,629,304</u>	<u>\$2,093,499</u>	<u>\$12,183,977</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$45,656	\$0	\$18,488	\$206,299	\$270,443
Accrued Wages	1,279,896	0	0	258,437	1,538,333
Contracts Payable	37,542	0	0	69,072	106,614
Intergovernmental Payable	353,679	0	0	60,836	414,515
Interfund Payable	0	0	0	45,463	45,463
Deferred Revenue	2,662,410	375,660	140,878	236,333	3,415,281
Matured Compensated Absences Payable	171,169	0	0	8,269	179,438
<i>Total Liabilities</i>	<u>4,550,352</u>	<u>375,660</u>	<u>159,366</u>	<u>884,709</u>	<u>5,970,087</u>
<b>Fund Balances:</b>					
Reserved for Encumbrances	22,042	0	0	91,084	113,126
Reserved for Property Taxes	1,550,655	205,689	85,986	28,662	1,870,992
Reserved for Unclaimed Monies	2,728	0	0	0	2,728
Reserved for Textbooks	462,097	0	0	0	462,097
Unreserved, Undesignated, Reported in:					
General Fund	444,208	0	0	0	444,208
Special Revenue Funds	0	0	0	217,052	217,052
Debt Service Fund	0	847,743	0	0	847,743
Capital Projects Funds	0	0	1,383,952	871,992	2,255,944
<i>Total Fund Balances</i>	<u>2,481,730</u>	<u>1,053,432</u>	<u>1,469,938</u>	<u>1,208,790</u>	<u>6,213,890</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,032,082</u>	<u>\$1,429,092</u>	<u>\$1,629,304</u>	<u>\$2,093,499</u>	<u>\$12,183,977</u>

See accompanying notes to the basic financial statements

**Conneaut Area City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007*

<b>Total Governmental Funds Balances</b>	\$6,213,890
 <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.	42,933,709
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	552,532
Grants	189,373
CAFS Reimbursement	<u>85,698</u>
Total	827,603
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(20,478)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(5,516,954)
Compensated Absences	<u>(1,219,805)</u>
Total	<u>(6,736,759)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$43,217,965</u></u>

See accompanying notes to the basic financial statements

**Conneaut Area City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2007*

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$4,308,688	\$583,021	\$228,723	\$76,241	\$5,196,673
Intergovernmental	11,764,972	93,807	32,576	2,859,055	14,750,410
Interest	242,246	0	0	125,488	367,734
Charges for Services	0	0	0	267,366	267,366
Tuition and Fees	124,982	0	0	29,838	154,820
Extracurricular Activities	0	0	0	120,036	120,036
Rentals	2,613	0	0	0	2,613
Contributions and Donations	700	0	0	61,777	62,477
Miscellaneous	97,051	0	0	60,470	157,521
<i>Total Revenues</i>	<u>16,541,252</u>	<u>676,828</u>	<u>261,299</u>	<u>3,600,271</u>	<u>21,079,650</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	8,270,652	0	0	661,669	8,932,321
Special	1,216,392	0	0	1,140,090	2,356,482
Vocational	79,694	0	0	0	79,694
Support Services:					
Pupils	793,277	0	0	346,470	1,139,747
Instructional Staff	813,741	0	0	415,879	1,229,620
Board of Education	32,759	0	0	0	32,759
Administration	1,358,083	0	0	91,295	1,449,378
Fiscal	381,675	14,773	0	1,662	398,110
Operation and Maintenance of Plant	1,817,157	0	0	238,310	2,055,467
Pupil Transportation	896,802	0	0	0	896,802
Central	45,857	0	0	9,895	55,752
Extracurricular Activities	217,234	0	0	234,615	451,849
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	866,644	866,644
Capital Outlay	0	0	288,111	139,081	427,192
Debt Service:					
Principal Retirement	0	422,701	0	0	422,701
Interest and Fiscal Charges	0	263,290	0	0	263,290
<i>Total Expenditures</i>	<u>15,923,323</u>	<u>700,764</u>	<u>288,111</u>	<u>4,145,610</u>	<u>21,057,808</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>617,929</u>	<u>(23,936)</u>	<u>(26,812)</u>	<u>(545,339)</u>	<u>21,842</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from Sale of Capital Assets	0	0	137,545	0	137,545
Transfers In	0	0	0	3,668	3,668
Transfers Out	(3,668)	0	0	0	(3,668)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,668)</u>	<u>0</u>	<u>137,545</u>	<u>3,668</u>	<u>137,545</u>
<i>Net Change in Fund Balances</i>	614,261	(23,936)	110,733	(541,671)	159,387
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,867,469</u>	<u>1,077,368</u>	<u>1,359,205</u>	<u>1,750,461</u>	<u>6,054,503</u>
<i>Fund Balances End of Year</i>	<u>\$2,481,730</u>	<u>\$1,053,432</u>	<u>\$1,469,938</u>	<u>\$1,208,790</u>	<u>\$6,213,890</u>

See accompanying notes to the basic financial statements

**Conneaut Area City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007*

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**Net Change in Fund Balances -Total Governmental Funds** \$159,387

*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 depreciation exceeded capital outlays in the current period.

Capital Asset Additions	239,458	
Current Year Depreciation	(1,493,246)	
	(1,493,246)	
Total		(1,253,788)

Governmental Funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,038)

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

Property Taxes	(24,577)	
Grants	71,621	
CAFS Reimbursement	85,698	
	85,698	
Total		132,742

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 422,701

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Accrued Interest	1,431	
Bond Accretion	(40,268)	
	(40,268)	
Total		(38,837)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 134,094

*Change in Net Assets of Governmental Activities* (\$449,739)

See accompanying notes to the basic financial statements

**Conneaut Area City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$4,218,560	\$4,344,300	\$4,344,300	\$0
Intergovernmental	11,424,454	11,764,972	11,764,972	0
Interest	235,235	241,000	242,246	1,246
Tuition and Fees	121,365	124,982	124,982	0
Rentals	2,537	2,640	2,613	(27)
Contributions and Donations	680	700	700	0
Miscellaneous	71,684	71,246	73,724	2,478
<i>Total Revenues</i>	<u>16,074,515</u>	<u>16,549,840</u>	<u>16,553,537</u>	<u>3,697</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,105,940	8,139,751	8,046,878	92,873
Special	1,244,015	1,184,287	1,182,962	1,325
Vocational	75,914	85,105	85,079	26
Support Services:				
Pupils	805,589	806,225	797,755	8,470
Instructional Staff	872,681	885,494	871,227	14,267
Board of Education	33,273	37,519	32,856	4,663
Administration	1,556,461	1,552,440	1,540,674	11,766
Fiscal	392,491	407,034	400,207	6,827
Operation and Maintenance of Plant	1,930,546	1,941,033	1,918,172	22,861
Pupil Transportation	932,521	948,494	935,934	12,560
Central	45,997	50,245	45,721	4,524
Extracurricular Activities	221,007	222,849	218,249	4,600
<i>Total Expenditures</i>	<u>16,216,435</u>	<u>16,260,476</u>	<u>16,075,714</u>	<u>184,762</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(141,920)</u>	<u>289,364</u>	<u>477,823</u>	<u>188,459</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	47,795	0	49,316	49,316
Advances Out	0	0	(45,463)	(45,463)
Transfers Out	(3,715)	(3,668)	(3,668)	0
<i>Total Other Financing Sources (Uses)</i>	<u>44,080</u>	<u>(3,668)</u>	<u>185</u>	<u>3,853</u>
<i>Net Change in Fund Balance</i>	<u>(97,840)</u>	<u>285,696</u>	<u>478,008</u>	<u>192,312</u>
<i>Fund Balance Beginning of Year</i>	<u>2,093,986</u>	<u>2,093,986</u>	<u>2,093,986</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>54,966</u>	<u>54,966</u>	<u>54,966</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$2,051,112</u></u>	<u><u>\$2,434,648</u></u>	<u><u>\$2,626,960</u></u>	<u><u>\$192,312</u></u>

See accompanying notes to the basic financial statements

**Conneaut Area City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2007*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$31,820</u></u>
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**Liabilities**

Due to Students	<u><u>\$31,820</u></u>
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See accompanying notes to the basic financial statements

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## **Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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### **Note 1 - Description of the School District**

Conneaut Area City School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and federal guidelines.

The School District was established in 1962 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 58 square miles. It is located in Ashtabula County. It is staffed by 110 non-certified employees and 172 certified full-time teaching personnel who provide services to 2,217 students and other community members. The School District currently operates five instructional buildings and a bus garage.

#### ***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, agencies and offices that are not legally separate from the School District. For Conneaut 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 School District.

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

The School District is associated with a shared risk pool, an insurance purchasing pool and four jointly governed organizations. These organizations are the Ashtabula County School Council of Governments, the Ohio School Boards Association Workers' Compensation Group Rating Program, the Northeast Ohio Instructional Media Center, the Ashtabula County Joint Vocational School District, the Northeast Ohio Management Information Network, and the Northeast Ohio Special Education Regional Resource Center, which are presented in Notes 16 and 18 to the basic financial statements.

### **Note 2 - Summary of Significant Accounting Policies**

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

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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### **A. Basis of Presentation**

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

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

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

### **B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

**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 School District's major governmental funds:

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

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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***Bond Retirement Fund*** The bond retirement fund accounts for property tax revenues that are used for payment of principal and interest and fiscal charges on general obligation debt.

***Permanent Improvement Fund*** The permanent improvement fund is used to account for all transactions related to the acquiring, construction, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

***Fiduciary Fund Type*** 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District had no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

### ***C. Measurement Focus***

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

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

### ***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 for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in 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 are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***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, 2007, but which were levied to finance fiscal year 2008 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.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level for the general fund and at the fund level for all other funds. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds, except the general fund, without resolution by the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were passed by the Board of Education.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

***F. Cash and Cash Equivalents***

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to a repurchase agreement and STAROhio. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$242,246, which includes \$102,268 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

***G. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of donated and purchased food held for resale and materials and supplies held for consumption.

***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside to create a reserve for the purchase of textbooks as well as money set aside for unclaimed monies. See Note 19 for additional information regarding set asides.

***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 in the fund financial statements.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Governmental Activities Estimated Lives
Land Improvements	5 to 10 years
Buildings and Improvements	20 to 50 years
Furniture and Equipment	8 to 20 years
Vehicles	10 years
Textbooks	6 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 activities column of the statement of net assets.

***K. Compensated Absences***

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

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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***L. Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the 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 School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$4,337,608, of which none is restricted by enabling legislation. Net assets restricted for other purposes include food service operations and extracurricular activities.

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

***N. Fund Balance Reserves***

The School 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 encumbrances, property taxes, unclaimed monies and textbooks.

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 unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation.

***O. Internal Activity***

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

**P. 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 Board of Education and that are either unusual in nature or infrequent in occurrence.

**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 financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 3 – Restatement of Prior Year Fund Balance/Net Assets**

The workers' compensation agency fund was reclassified as part of the general fund. This restatement had the following effect on fund balances:

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Fund Balance, June 30, 2006	\$1,555,162	\$1,077,368	\$1,359,205	\$1,750,461	\$5,742,196
Fund Reclassification	312,307	0	0	0	312,307
Adjusted Fund Balance, June 30, 2006	<u>\$1,867,469</u>	<u>\$1,077,368</u>	<u>\$1,359,205</u>	<u>\$1,750,461</u>	<u>\$6,054,503</u>

The fund reclassification increased net assets \$312,307 from \$43,355,397 to \$43,667,704.

**Note 4 – Fund Deficits**

Fund balances at June 30, 2007 included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Poverty Based Assistance	\$33,852
Title VI-B	19,292
Title I	55,908
Preschool Disabilities	5,071
Reducing Class Size	11,347
Miscellaneous Federal Grants	64,059

These deficits are caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is



**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are 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 as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the School District on the operating statements (budget), but which is reported on the GAAP basis operating statements.
5. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$614,261
Net Adjustment for Revenue Accruals	49,827
Advances In	49,316
Ending Unrecorded Cash	(37,542)
Net Adjustment for Expenditure Accruals	(84,693)
Advances Out	(45,463)
Encumbrances	(67,698)
Budget Basis	<u>\$478,008</u>

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of 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, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$5,972,846 of the School District's bank balance of \$6,172,846 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or

## Conneaut Area City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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.

### Investments

As of June 30, 2007, the School District had the following investments.

	Carrying and Fair Value	Maturity
Repurchase Agreements	\$546,045	July 1, 2007
STAROhio	497,270	Average 34.8 Days
<i>Totals</i>	<u>\$1,043,315</u>	

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments. The securities underlying the repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that requires securities purchased pursuant to this division shall be delivered into the custody of the treasurer or governing board or an agent designated by the treasurer or governing board.

**Credit Risk** The securities underlying the repurchase agreement had a credit rating of AAA by Standard & Poor's. STAROhio carries a rating of AAA by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer. As of June 30, 2007, the School District allocated 52.34 percent of its investments to repurchase agreements.

### Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Ashtabula County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 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, 2007 was \$1,550,655 in the general fund, \$205,689 in the bond retirement debt service fund, \$85,986 in the permanent improvement capital projects fund and \$28,662 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2006 was \$1,586,267 in the general fund, \$317,895 in the bond retirement debt service fund, \$85,350 in the permanent improvement capital projects fund and \$28,450 in the classroom facilities maintenance special revenue fund.

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

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$176,000,920	83.78 %	\$176,415,460	86.49 %
Public Utility Personal	12,573,380	5.98	12,465,380	6.11
Tangible Personal Property	21,504,702	10.24	15,090,631	7.40
Total	<u>\$210,079,002</u>	<u>100.00 %</u>	<u>\$203,971,471</u>	<u>100.00 %</u>
Tax Rate per \$1,000 of Assessed Valuation	\$45.83		\$37.63	

The residents of the School District did not approve the renewal of a five year 6.9 mill operating levy designated for current operating expenses. Tax revenue decreased from the loss of the levy beginning January 2007.

**Note 8 - Receivables**

Receivables at June 30, 2007, consisted of taxes, accounts (student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables except for delinquent property taxes are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Title I	\$113,927
CAFS Reimbursement	85,698
Title VI-B	42,694
Classroom Reduction	20,179
Technology II-D	6,405
Drug Free Grant	3,721
Title V	2,447
<i>Total Intergovernmental Receivables</i>	<u>\$275,071</u>

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 06/30/06	Additions	Deductions	Balance 06/30/07
<b>Governmental Activities</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$1,022,168	\$0	\$0	\$1,022,168
<i>Capital Assets being Depreciated:</i>				
Land Improvements	1,582,538	50,867	0	1,633,405
Buildings and Improvements	45,720,766	20,466	(65,010)	45,676,222
Furniture and Equipment	2,400,274	42,050	(3,599)	2,438,725
Vehicles	1,203,401	126,075	(40,781)	1,288,695
Textbooks	523,438	0	0	523,438
<i>Total Capital Assets being Depreciated</i>	<u>51,430,417</u>	<u>239,458</u>	<u>(109,390)</u>	<u>51,560,485</u>
Less Accumulated Depreciation:				
Land Improvements	(263,060)	(55,737)	0	(318,797)
Buildings and Improvements	(6,411,382)	(1,088,716)	61,871	(7,438,227)
Furniture and Equipment	(593,246)	(151,981)	700	(744,527)
Vehicles	(786,098)	(56,618)	40,781	(801,935)
Textbooks	(205,264)	(140,194)	0	(345,458)
<i>Total Accumulated Depreciation</i>	<u>(8,259,050)</u>	<u>(1,493,246) *</u>	<u>103,352</u>	<u>(9,648,944)</u>
<i>Total Assets being Depreciated, Net</i>	<u>43,171,367</u>	<u>(1,253,788)</u>	<u>(6,038)</u>	<u>41,911,541</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$44,193,535</u>	<u>(\$1,253,788)</u>	<u>(\$6,038)</u>	<u>\$42,933,709</u>

\* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$1,278,624
Special	157
Vocational	4,009
Support Services:	
Pupils	371
Instructional Staff	97,026
Administration	3,446
Operation and Maintenance of Plant	2,130
Pupil Transportation	57,823
Central	18,780
Extracurricular Activities	2,289
Operation of Non-Instructional Services:	
Food Service Operations	28,591
<b>Total Depreciation Expense</b>	<u><u>\$1,493,246</u></u>

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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**Note 10 - Interfund Transactions**

***A. Interfund Transfers***

The transfer from the general fund for \$3,668 to the uniform school supplies special revenue fund was to move unrestricted balances to support programs and projects accounted for in the uniform school supplies fund.

***B. Interfund Balance***

Interfund balances at June 30, 2007, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$45,463. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

**Note 11 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Indiana Insurance Agency for various types of insurance. Coverage is as follows:

Coverage	Amount
Blanket Building and Contents (\$2,500 Deductible)	\$46,275,283
Inland Marine(\$500 Deductible)	850,000
Business Auto - Liability (\$1,000 Deductible)	1,000,000
Uninsured Motorists - Comprehensive (\$1,000 Deductible)	500,000
Liability	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

***B. Employee Medical Benefits***

The School District participates in the Ashtabula County Schools Council of Governments, a shared risk pool (Note 18) to provide employee medical/surgical, prescription drug, dental and vision benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which the claim payments are made for all participating districts. The School District's Board of Education pays the entire cost of a monthly premium for all full-time employees.

***C. Worker's Compensation***

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and

## **Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

### **Note 12 - Pension Plans**

#### ***A. School Employees Retirement System***

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$256,382, \$277,284, and \$372,516, respectively; 58.55 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

#### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into 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



## **Conneaut Area City School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007*

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$1,154,156, \$1,341,158, and \$1,499,232, respectively; 86.74 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$6,553 made by the School District and \$29,424 made by the plan members.

### **Note 13 - Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$88,781 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) 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 \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$129,646.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**Note 14 – Other Employee Benefits**

***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and the Treasurer earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave accumulates during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for certified employees is 315 days, and for classified employees it is 300 days. For all employees, retirement severance is paid to each employee retiring from the School District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay is entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 57 days for certified and 55 days for classified employees.

***B. Insurance***

Life insurance is offered to employees through Sun Life Insurance Company. Certified and classified employees are covered for \$40,000 and \$35,000, respectively with payments of \$7.40 and \$6.13 per month, respectively.

***C. Health Insurance Benefits***

The School District provides employee medical and surgical insurance, prescription drug, dental, and vision insurance through the Ashtabula County Schools Council of Governments.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

**Note 15 - Long-Term Obligations**

Original issue amounts and interest rates of the School District's debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
2001 Classroom Facilities Improvement Bonds:			
Capital Interest Serial Bonds	4.10% to 5.10%	\$6,390,000	2020
Capital Appreciation Bonds	4.65% to 4.70%	190,895	2010
Current Issue Term Bonds	5.125%	1,340,000	2023
2001 Asbestos Abatement Loan	0.00%	35,138	2007

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts Due in One Year
<b>Governmental Activities</b>					
<i>General Obligation Bonds:</i>					
Classroom Facilities Bonds					
Serial Bonds	\$4,205,000	\$0	\$420,000	\$3,785,000	\$240,000
Capital Appreciation Bonds	190,895	0	0	190,895	0
Accretion	160,791	40,268	0	201,059	0
Term Bonds	1,340,000	0	0	1,340,000	0
<i>Total General Obligation Bonds</i>	5,896,686	40,268	420,000	5,516,954	240,000
<i>Other Long Term Obligations</i>					
Asbestos Abatement Loan	2,701	0	2,701	0	0
Compensated Absences	1,353,899	87,502	221,596	1,219,805	129,916
<i>Total General Long-Term Obligations</i>	\$7,253,286	\$127,770	\$644,297	\$6,736,759	\$369,916

Compensated absences will be paid from the general fund and the food service, educational management information systems, title VI-B, title I, classroom reduction and miscellaneous federal grants special revenue funds.

On December 15, 2000, the School District issued \$6,590,895 in voted general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$5,060,000, \$1,340,000 and \$190,895, respectively. The general obligation bonds were issued for the purpose of building new schools within the Conneaut Area City Schools system. The bonds were issued for a twenty-one year period with final maturity at December 1, 2023. The bonds will be retired from the debt service fund.

The serial, capital appreciation and current issue term bonds remained outstanding at June 30, 2007. The capital appreciation bonds were originally sold at a discount of \$339,105, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010 through 2011.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

The maturity amount of outstanding capital appreciation bonds at June 30, 2007 is \$530,000. The accretion recorded for 2007 was \$40,268, for a total outstanding bond liability of \$391,954 at June 30, 2007.

The term bonds maturing on December 1, 2023 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2021	\$425,000
2022	445,000
Total	<u>\$870,000</u>

The remaining principal amount of the term bonds (\$470,000) will mature at the stated maturity on December 1, 2023.

The School District's overall debt margin was \$12,096,076 with an unvoted debt margin of \$181,762 at June 30, 2007. Principal and interest requirements to retire the general obligation bonds follow:

	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$240,000	\$177,065	\$0	\$0	\$0	\$68,675
2009	255,000	166,235	0	0	0	68,675
2010	0	160,625	100,631	164,369	0	68,675
2011	0	160,625	90,264	174,736	0	68,675
2012	265,000	154,596	0	0	0	68,675
2013-2017	1,520,000	569,358	0	0	0	343,375
2018-2022	1,505,000	156,937	0	0	425,000	332,484
2023-2024	0	0	0	0	915,000	47,535
Total	<u>\$3,785,000</u>	<u>\$1,545,441</u>	<u>\$190,895</u>	<u>\$339,105</u>	<u>\$1,340,000</u>	<u>\$1,066,769</u>

**Note 16 - Jointly Governed Organizations**

***Northeast Ohio Instructional Media Center (NEOIMC)*** – NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use 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 school district superintendent from each participating county, one city school district superintendent, and two local school district superintendents, rotating every two years. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 6000 Youngstown-Warren Rd., Niles, Ohio, 44446.

## **Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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***Ashtabula County Joint Vocational School District*** – The Ashtabula County Joint Vocational School District (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the participating School Districts' elected boards. The degree of control exercised by the Vocational School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from Mary Ann Wayman, Treasurer at the Ashtabula County Joint Vocational School District, 1565 State Route 167, Jefferson, Ohio 44047.

***Northeast Ohio Management Information Network (NEOMIN)*** – The North East Ohio Management Information Network (NEOMIN) is a jointly governed organization among 30 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 Service Centers. Each of the districts supports NEOMIN based upon a per pupil charge. The School District paid \$36,915 to NEOMIN during fiscal year 2007.

The Governing Board consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The degree of control exercised by a participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown-Warren Rd., Niles, Ohio 44446.

***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 governing 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 terms rotate each year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Youngstown, Ohio, 44512.

### **Note 17 - Contingencies**

#### ***A. Grants***

The School 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

#### ***B. Litigation***

As of June 30, 2007, the School District was not party to any legal proceedings.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007*

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**Note 18 – Public Entity Risk Pools**

***A. Insurance Purchasing Pool***

The School 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 OSBA. 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.

***B. Risk Sharing Pool***

The School District has contracted with the Ashtabula County Schools Council of Governments ("the Council") to provide employee medical/surgical, prescription drug, dental and vision benefits. The Council is organized under Chapter 167 of the Ohio Revised Code and is comprised of seven Ashtabula County school districts. Rates are set by the Council's board of directors. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The Council is a separate and independent entity governed by its own set of by-laws and constitution. All assets and liabilities are the responsibility of the Council. The program is operated as a full indemnity program with no financial liability (other than monthly premiums) or risk to the School District. The Council shall pay the run out of all claims for a withdrawing Member. Any Member which withdraws from the Council pursuant to the Council Agreement shall have no claim to the Council's assets.

**Note 19 - Set-Aside Calculations**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set -aside Cash Balance as of June 30, 2006	\$373,839	\$0
Current Year Set-aside Requirement	355,750	355,750
Current Year Offsets	0	(237,692)
Qualifying Expenditures	<u>(267,492)</u>	<u>(234,643)</u>
Totals	<u>\$462,097</u>	<u>(\$116,585)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$462,097</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$462,097</u>	<u>\$0</u>

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2007*

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The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the two set-asides at the end of the fiscal year was \$462,097.

**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through The Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		<b>\$108,423</b>		<b>\$108,423</b>
<b>Nutrition Cluster:</b>						
School Breakfast Program	05-PU-06	10.553	\$22,273		\$22,273	
	05-PU-07		63,828		63,828	
<b>Subtotal -- School Breakfast Program</b>			<b>86,101</b>		<b>86,101</b>	
National School Lunch Program	LL-P4-06	10.555	107,225		107,225	
	LL-P4-07		297,133		297,133	
	VG-S1-06		7,332			
<b>Subtotal -- School National School Lunch Program</b>			<b>411,690</b>		<b>404,358</b>	
<b>Total - Nutrition Cluster</b>			<b>497,791</b>		<b>490,459</b>	
<b>Total U.S. Department of Agriculture Nutrition Cluster</b>			<b>497,791</b>	<b>108,423</b>	<b>490,459</b>	<b>108,423</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through The Ohio Department of Education:</i>						
Improving Basic Programs Operated by Local Education Agencies - Title I, Part A	C1-S1 06 C1-S1 07 C1-SK 07	84.010	94,391 675,188 350		95,923 609,875	
<b>Total Title I School Subsidy</b>			<b>769,929</b>		<b>705,798</b>	
<b>Special Education Cluster:</b>						
Special Education Grants to States: IDEA, Part B	6B-SF 06 P 6B-SF 07 P	84.027	70,959 623,185		67,582 540,242	
<b>Subtotal IDEA, Part B</b>			<b>694,144</b>		<b>607,824</b>	
Preschool Grants for Children with Disabilities: Early Childhood Special Education, IDEA	PG-S1 06 P PG-S1 07 P	84.173	1,366 14,954		1,122 14,032	
<b>Subtotal Early Childhood Spec Education, IDEA</b>			<b>16,320</b>		<b>15,154</b>	
<b>Total - Special Education Cluster</b>			<b>710,464</b>		<b>622,978</b>	

(Continued)



CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through The Ohio Department of Education:</i> (continued)						
Safe and Drug-Free Schools and Communities: State Grants	DR-S1 06	84.186A	\$13,638		\$13,778	
	DR-S1 07		15,707		10,060	
<b>Total Safe and Drug Free Schools and Communities</b>			<b>29,345</b>		<b>23,838</b>	
Innovative Programs: Title V	C2-S1 06	84.298	5,311		5,310	
	C2-S1 07		4,399		1,895	
<b>Total Innovative Programs</b>			<b>9,710</b>		<b>7,205</b>	
Enhancing Education Through Technology Program Title II-D	TJ-S1 06	84.318	2,029		0	
	TJ-S1 07		5,092		5,032	
<b>Total Technology, Title II-D</b>			<b>7,121</b>		<b>5,032</b>	
Comprehensive School Reform Program	RF-CC-06	84.332	91		4,300	
	RF-CC-07		15,354		18,954	
<b>Total Comprehensive School Reform Program</b>			<b>15,445</b>		<b>23,254</b>	
Reading First	RS-S1-06	84.357	160,791		177,027	
	RS-S1-07		367,113		339,007	
<b>Total Reading First</b>			<b>527,904</b>		<b>516,034</b>	
Improving Teacher Quality State Grants: Title II-A	TR-S1-06	84.367	25,200		24,691	
	TR-S1-07		156,518		144,343	
<b>Total Title II-A, Improving Teacher Quality State Grants</b>			<b>181,718</b>		<b>169,034</b>	
<b>Total - U.S. Department of Education</b>			<b>\$2,251,636</b>		<b>\$2,073,173</b>	
<b>Totals</b>			<b>\$2,749,427</b>	<b>\$108,423</b>	<b>\$2,563,632</b>	<b>\$108,423</b>

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

**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C— FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**NOTE D – MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Conneaut Area City School District  
Ashtabula County  
400 Mill Street, Suite B  
Conneaut, Ohio 44030

To The Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 7, 2008. 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the District's management in a separate letter dated April 7, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 7, 2008



# Mary Taylor, CPA

## Auditor of State

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

Conneaut Area City School District  
Ashtabula County  
400 Mill Street, Suite B  
Conneaut, Ohio 44030

To The Board of Education:

#### Compliance

We have audited the compliance of Conneaut Area City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Conneaut Area City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

#### Internal Control Over Compliance

The District's management 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 District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

April 7, 2008

**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster: CFDA numbers: 10.553 and 10.555 Title I: CFDA number : 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	YES

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

NONE

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE







**Mary Taylor, CPA**  
Auditor of State

**CONNEAUT AREA CITY SCHOOL DISTRICT**

**ASHTABULA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 1, 2008**