



**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Oberlin City School District
Lorain County
153 North Main Street
Oberlin, Ohio 44074

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

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

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

As described in Note 3, during the year ended June 30, 2003, the District increased the capitalization threshold for capital assets and implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 16, 2004

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003

(UNAUDITED)

The management's discussion and analysis of Oberlin City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this management's discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2003 are as follows:

In total, net assets decreased by \$ 2,180,735.

Revenues for governmental activities totaled \$ 10,549,679 in 2003. Of this total, 90 percent consisted of General Revenues while Program Revenues accounted for the remaining balance of 10 percent.

Program Expenses totaled \$ 12,730,414. Instructional expenses made up 61 percent of this total while support services accounted for 35 percent. Other expenses rounded out the remaining 4 percent.

Using this 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 Oberlin 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 General Fund, the most significant fund with all other non-major funds presented in total in one column.

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 2003?" The Statement of Net Assets and 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 the current year's revenues and expenses regardless of when cash is received or paid.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003

(UNAUDITED)

These two statements report the School District's net assets and changes in those net assets. This change in net assets is important because it tells the reader whether, for the 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. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and interest.

Reporting the School District's Most Significant Fund

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major fund. 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 fund. The School District's major governmental fund is the General Fund.

Governmental Funds

All of the School District's funds are reported as governmental funds, which focus on how money flows into and out of these 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.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2003
 (UNAUDITED)

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Table 1
Total Net Assets

Assets	<u>2003</u>	<u>2002</u>
Current and Other Assets	\$ 7,039,267	\$ 8,352,896
Capital Assets, Net	6,698,735	7,024,468
Total Assets	<u>13,738,002</u>	<u>15,377,364</u>
Liabilities		
Current Liabilities	5,311,416	4,786,093
Long Term Liabilities		
Due Within One Year	346,472	701,026
Due in More than One Year	<u>1,395,121</u>	<u>1,024,517</u>
Total Liabilities	<u>7,053,009</u>	<u>6,511,636</u>
Net Assets		
Invested in Capital Assets, net of Related Debt	6,509,653	6,510,244
Restricted for:		
Debt Service	402,753	242,324
Capital Projects	109,831	278,307
Unrestricted (deficit)	<u>(337,244)</u>	<u>1,834,853</u>
Total Net Assets	<u>\$ 6,684,993</u>	<u>\$ 8,865,728</u>

Governmental Activities

By comparing assets and liabilities, one can see the overall position of the School District has not improved as evidenced by the decrease in net assets of \$ 2,180,735.

The vast majority of revenue supporting all Governmental Activities is from General Revenues. General Revenue totaled \$ 9,428,784 or 90 percent of the total revenue. The most significant portion of the General Revenues is local property tax. The remaining amount of revenue was in the form of program revenues, which equated to \$ 1,120,895 or only 10 percent of total revenue.

Table 2 summarizes the revenue, expenses and the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2003
 (UNAUDITED)

Table 2
 Governmental Activities

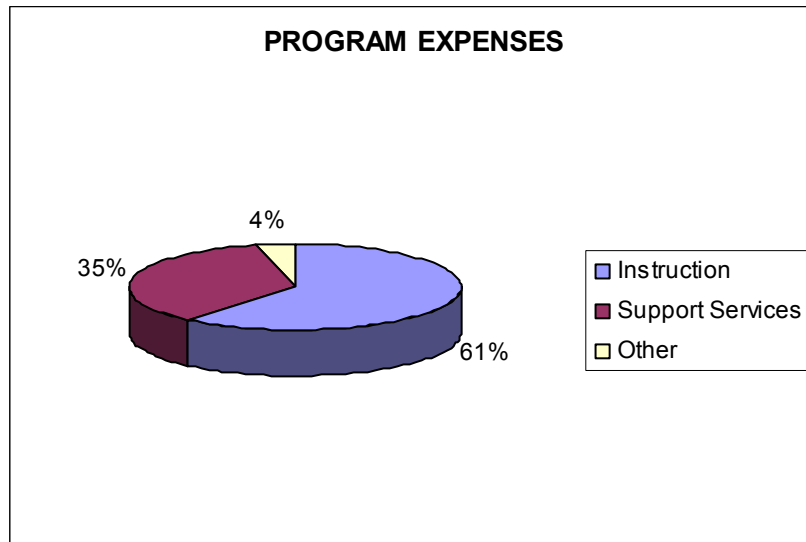
	<u>2003</u>
Revenues	
Program Revenues	
Charges for Services and Sales	\$ 148,562
Operating Grants, Interest and Contributions	952,333
Capital Grants and Contributions	<u>20,000</u>
Total Program Revenues	<u>1,120,895</u>
General Revenue	
Property Taxes	5,070,275
Grants and Entitlements	3,429,235
Investment Earnings	93,037
Miscellaneous	<u>836,237</u>
Total General Revenues	<u>9,428,784</u>
Total Revenues	<u>10,549,679</u>
Program Expenses	
Instruction:	
Regular	6,520,389
Special	1,111,158
Vocational	121,380
Support Services:	
Pupil	909,762
Instructional Staff	377,578
Board of Education	85,347
Administration	1,150,484
Fiscal Services	222,206
Business	100,246
Operation and Maintenance	1,152,810
Pupil Transportation	369,890
Central Services	38,114
Operation of Non-Instructional Services:	
Food Service Operation	316,983
Community Services	1,000
Extracurricular Activities	234,685
Interest	<u>18,382</u>
Total Expenses	<u>12,730,414</u>
Decrease in Net Assets	\$ (2,180,735)
Net Assets at Beginning of Year, Restated	<u>8,865,728</u>
Net Assets at End of Year	<u>\$ 6,684,993</u>

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003
(UNAUDITED)

The School District has carefully planned its financial future by forecasting its revenues and expenditures over the next five years. In May of 2003, the School District submitted its yearly five-year forecast to the Ohio Department of Education. Based upon the current five-year financial forecast, the School District has adequate operating funds for the next two years. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

Approximately 61 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 35 percent. The remaining program expenses of 4 percent are budgeted to facilitate other obligations of the School District, such as the food service program, numerous extracurricular activities and interest expenses.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. It identifies the cost of these services supported by tax revenue and unrestricted State entitlements.



OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003

(UNAUDITED)

Table 3
Governmental Activities

	Total Cost Of Services <u>2003</u>	Net Cost Of Services <u>2003</u>
Governmental Activities		
Instruction:		
Regular	\$ 6,520,389	(6,408,685)
Special	1,111,158	(1,102,097)
Vocational	121,380	(121,380)
Support Services:		
Pupil	909,762	(257,601)
Instructional Staff	377,578	(370,364)
Board of Education	85,347	(85,347)
Administration	1,150,484	(1,145,484)
Fiscal Services	222,206	(222,206)
Business	100,246	(100,246)
Operations & Maintenance	1,152,810	(1,152,810)
Pupil Transportation	369,890	(369,890)
Central Services	38,114	(38,114)
Operation of Non-Instructional:		
Food Service Operation	316,983	(20,728)
Community Services	1,000	(1,000)
Extracurricular Activities	234,685	(195,185)
Interest	<u>18,382</u>	<u>(18,382)</u>
Total Program Expenses	<u>\$12,730,414</u>	<u>\$(11,609,519)</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Over 44 percent of expenses are directly supported by local property taxes. Grants and entitlements not restricted to specific programs support 30 percent, while investment earnings and other miscellaneous type revenues support the remaining activity costs of 8 percent. Program Revenues fund only 10 percent of all governmental expenses.

Clearly, the Oberlin community is by far the greatest source of financial support for the students of the Oberlin City Schools.

School District Funds

Information regarding the School District's major fund can be found on page 13. Governmental funds are accounted for using the modified accrual basis of accounting.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003

(UNAUDITED)

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 fund to be budgeted is the main operating fund of the School District, the General Fund.

During the course of fiscal year 2003, the School District amended its General Fund budget numerous times, none significantly. Fluctuations among the budget basis expenditure categories are due to the School District's site-based style of budgeting that is designed to tightly control expenses but provide flexibility for managers to redirect funds as conditions develop during the year.

The School District ended the school year with a General Fund unencumbered cash balance of \$ 781,970.

Capital Assets and Debt Administration

Capital Assets

All capital assets, except land, are reported net of depreciation. At the end of fiscal 2003, the School District had \$ 6,698,735 invested in land and land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal 2003 values compared to 2002, net of accumulated depreciation.

Table 4
Capital Assets at June 30
Governmental Activities

	2003	2002 (Restated)
Land	\$ 2,279,070	\$ 2,279,070
Land improvements	363,613	362,703
Building and Improvements	3,678,510	3,974,271
Furniture and Equipment	300,017	300,420
Vehicles	<u>77,525</u>	<u>108,004</u>
Total Capital Assets	<u>\$ 6,698,735</u>	<u>\$ 7,024,468</u>

During fiscal 2003, the School District purchased \$ 103,297 of capital assets. Approximately 47 percent or \$ 48,344 was for land improvements, 35 percent or \$ 36,684 for furniture and equipment with the remaining 18 percent or \$ 18,269 for building and improvements. The decrease in capital assets is primarily due to depreciation and to a change in the capitalization policy.

Debt

At June 30, 2003, the School District had \$ 118,400 in outstanding bonds. Proceeds from the bonds were used for Energy Conservation projects throughout the District. The bonds are to be repaid in annual payments of interest and principal through fiscal year 2005.

Current Financial Related Activities

The School District has a good financial position. The Board of Education and the administration closely monitor the District's revenues and expenditures in accordance with its financial forecast and the School District's Continuous Improvement Plan.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003

(UNAUDITED)

The School District's financial future is not without challenges, though. The nature of school funding in Ohio severely restricts the growth in the School District's operating revenues and requires the School District to periodically seek additional funds from the taxpayers to offset rising operating costs. The Oberlin voters continue to show their support for the schools as illustrated with the passage of new and replacement levies.

In addition to the problem of limited growth in revenue, school districts are faced with the challenge of losing traditional sources of tax revenue through the Ohio General Assembly legislative actions. In June 1999, the Ohio General Assembly passed House Bill 284 that will phase-out, over a period of 25 years, the taxation on business inventories. Once fully implemented, the School District's operating revenue will be reduced by approximately \$ 900,000 annually.

Financial aid from the State of Ohio through the State Foundation Program has been declining as a major source of operating revenue for the School District. Because the School District is considered a wealthy district in terms of property values, it receives a relatively small amount of revenue from the State to fund operating expenses.

As a result of the challenges mentioned above, the School District's administration continues to carefully plan its expenditures to provide adequate resources to meet student needs over the next several years. The administration is currently reviewing all programs and services provided to students with the goal of reducing operating costs.

Contacting the School District's Financial Management

This report is designed to provide our citizens, taxpayers 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 any questions about this report or need additional financial information, contact Diane Wolf, Treasurer at Oberlin City School District, 153 N. Main St., Oberlin, Ohio 44074.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in pooled cash	\$ 1,965,911
Interest receivable	4,028
Inventories and supplies	5,963
Taxes receivable	5,063,365
Capital assets	
Nondepreciable capital assets	2,279,070
Depreciable capital assets	4,419,665
Total assets	<u>13,738,002</u>
Liabilities	
Accounts and contracts payable	18,502
Accrued salaries, wages and benefits	1,101,131
Accrued interest payable	6,543
Claims payable	251,940
Due to other governments	300,526
Deferred revenue	3,632,774
Long term liabilities	
Due within one year	346,472
Due in more than one year	1,395,121
Total liabilities	<u>7,053,009</u>
Net assets	
Invested in capital assets, net of related debt	6,509,653
Restricted for:	
Capital projects	402,753
Debt service	109,831
Unrestricted (deficit)	(337,244)
Total net assets	<u>\$ 6,684,993</u>

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction					
Regular	\$ 6,520,389	\$ -	\$ 91,704	\$ 20,000	\$ (6,408,685)
Special	1,111,158	-	9,061	-	(1,102,097)
Vocational	121,380	-	-	-	(121,380)
Supporting services					
Pupil	909,762	-	652,161	-	(257,601)
Instructional staff	377,578	-	7,214	-	(370,364)
Board of education	85,347	-	-	-	(85,347)
Administration	1,150,484	-	5,000	-	(1,145,484)
Fiscal services	222,206	-	-	-	(222,206)
Business	100,246	-	-	-	(100,246)
Operation and maintenance	1,152,810	-	-	-	(1,152,810)
Pupil transportation	369,890	-	-	-	(369,890)
Central services	38,114	-	-	-	(38,114)
Operation of non-instructional					
Food service operation	316,983	148,562	147,693	-	(20,728)
Community services	1,000	-	-	-	(1,000)
Extracurricular activities					
Academic and subject oriented	28,487	-	-	-	(28,487)
Sports oriented	159,199	-	-	-	(159,199)
Co-curricular	46,999	-	39,500	-	(7,499)
Interest	18,382	-	-	-	(18,382)
Totals	<u>\$ 12,730,414</u>	<u>\$ 148,562</u>	<u>\$ 952,333</u>	<u>\$ 20,000</u>	<u>(11,609,519)</u>
General revenues					
Property taxes levied for:					
General purpose					4,774,197
Debt service					37,506
Capital improvements					258,572
Grants and entitlements not restricted to specific purposes					3,429,235
Investment earnings					93,037
Miscellaneous					836,237
Total general revenues					<u>9,428,784</u>
Change in net assets					(2,180,735)
Net assets at beginning of year, restated					<u>8,865,728</u>
Net assets at end of year					<u>\$ 6,684,993</u>

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

BALANCE SHEET -
GOVERNMENTAL FUNDS

JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash	\$ 523,801	\$ 813,436	\$ 1,337,237
Cash with fiscal agents	-	75	75
Restricted cash	396,064	-	396,064
Receivables, net of allowance			
Taxes, current	3,574,501	428,014	4,002,515
Taxes, delinquent	491,827	33,170	524,997
Income tax	535,853	-	535,853
Interest receivable	4,028	-	4,028
Interfund receivable	184,859	-	184,859
Inventories and supplies	-	5,963	5,963
Total assets and other debits	<u>\$ 5,710,933</u>	<u>\$ 1,280,658</u>	<u>\$ 6,991,591</u>
Liabilities and fund balances			
Liabilities			
Accounts and contracts payable	\$ 9,099	\$ 9,403	\$ 18,502
Accrued wages and benefits	950,335	150,796	1,101,131
Due to other governments	185,695	10,829	196,524
Interfund payable	-	184,859	184,859
Deferred revenue	3,741,967	415,804	4,157,771
Matured bonds and coupons payable	-	75	75
Compensated absences payable	235,638	-	235,638
Total liabilities	<u>5,122,734</u>	<u>771,766</u>	<u>5,894,500</u>
Fund balances			
Reserved for budget stabilization	396,064	-	396,064
Reserved for property taxes	324,361	45,380	369,741
Reserved for encumbrances	133,269	204,207	337,476
Unreserved, reported in			
General Fund	(265,495)	-	(265,495)
Special Revenue Funds	-	(113,152)	(113,152)
Debt Service Fund	-	109,831	109,831
Capital Projects Funds	-	262,626	262,626
Total fund balances	<u>588,199</u>	<u>508,892</u>	<u>1,097,091</u>
Total liabilities and fund balances	<u>\$ 5,710,933</u>	<u>\$ 1,280,658</u>	<u>\$ 6,991,591</u>

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2003

Total governmental funds balances	\$	1,097,091
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		6,698,735
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.		524,997
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(19,405)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(104,002)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(1,316,873)
Capital leases		(70,682)
Bonds payable and related accrued interest		(124,868)
		(1,612,423)
Net assets of governmental activities	\$	6,684,993

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 4,596,207	\$ 422,840	\$ 5,019,047
Tuition and fees	650,939	-	650,939
Interest	82,128	-	82,128
Intergovernmental	3,320,266	1,081,302	4,401,568
Charges for services	-	148,562	148,562
Extracurricular	-	28,160	28,160
Other	60,362	96,776	157,138
Total revenues	8,709,902	1,777,640	10,487,542
Expenditures			
Current			
Instruction			
Regular	5,075,151	491,860	5,567,011
Special	729,284	353,522	1,082,806
Vocational	117,431	-	117,431
Supporting services			
Pupil	590,895	199,603	790,498
Instructional staff	348,939	36,760	385,699
Board of education	71,855	-	71,855
Administration	1,152,283	88,563	1,240,846
Fiscal services	231,469	7,039	238,508
Business	72,998	21,787	94,785
Operation and maintenance	1,085,751	93,465	1,179,216
Pupil transportation	329,151	-	329,151
Central services	28,155	9,959	38,114
Operation of non-instructional			
Food service operation	-	319,807	319,807
Community services	-	1,000	1,000
Extracurricular activities			
Academic and subject oriented	28,487	-	28,487
Sports oriented	118,603	37,728	156,331
Co-curricular	47,330	-	47,330
Capital outlay	75,015	-	75,015
Debt service			
Principal	69,562	255,580	325,142
Interest	10,707	17,777	28,484
Total expenditures	10,183,066	1,934,450	12,117,516
Excess (deficiency) of revenues over expenditures	(1,473,164)	(156,810)	(1,629,974)
Other financing sources (uses)			
Transfers-in	-	174,127	174,127
Transfers-out	(174,127)	-	(174,127)
Total other financing sources (uses)	(174,127)	174,127	-
Net change in fund balances	(1,647,291)	17,317	(1,629,974)
Fund balances, beginning of year, as restated	2,235,490	491,575	2,727,065
Fund balances, end of year	\$ 588,199	\$ 508,892	\$ 1,097,091

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	(1,629,974)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital outlay	103,297	
Depreciation expense	<u>(429,030)</u>	(325,733)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property taxes		51,228
<p>Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		335,244
<p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Compensated absences	(395,413)	
Pension obligations	<u>(18,335)</u>	(413,748)
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p>		
		<u>(197,752)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>(2,180,735)</u>

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2003

	General			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
Revenues				
Taxes	\$ 5,375,507	\$ 5,149,916	\$ 4,744,573	\$ (405,343)
Tuition and fees	68,474	650,939	650,939	-
Interest	186,000	236,000	112,877	(123,123)
Intergovernmental	3,426,205	3,435,501	3,320,266	(115,235)
Other	74,500	58,308	60,362	2,054
Total revenues	<u>9,130,686</u>	<u>9,530,664</u>	<u>8,889,017</u>	<u>(641,647)</u>
Expenditures				
Current				
Instruction				
Regular	4,792,251	5,102,866	5,270,944	(168,078)
Special	826,058	699,137	708,855	(9,718)
Vocational	112,471	112,471	115,255	(2,784)
Supporting services				
Pupil	521,968	588,884	631,996	(43,112)
Instructional staff	394,029	356,472	343,810	12,662
Board of education	87,700	80,639	70,809	9,830
Administration	1,029,955	1,078,771	1,048,495	30,276
Fiscal services	330,125	331,357	287,718	43,639
Business	79,200	80,645	74,889	5,756
Operation and maintenance	1,061,550	1,088,245	1,101,050	(12,805)
Pupil transportation	373,990	381,705	335,266	46,439
Central services	75,818	78,540	36,130	42,410
Extracurricular activities				
Academic and subject oriented	56,760	56,760	29,793	26,967
Sports oriented	148,820	148,820	120,030	28,790
Co-curricular	41,528	41,528	45,380	(3,852)
Capital outlay	75,000	75,000	75,015	(15)
Debt service				
Principal	59,200	59,200	59,200	-
Interest	10,123	10,123	10,123	-
Total expenditures	<u>10,076,546</u>	<u>10,371,163</u>	<u>10,364,758</u>	<u>6,405</u>
Excess (deficiency) of revenues over expenditures	<u>(945,860)</u>	<u>(840,499)</u>	<u>(1,475,741)</u>	<u>(648,052)</u>
Other financing sources (uses)				
Transfers-in	51,000	50,000	-	(50,000)
Advances in	25,000	51,000	51,000	-
Transfers-out	(200,000)	(200,000)	(174,127)	25,873
Advances out	(73,000)	(73,000)	(32,859)	40,141
Total other financing sources (uses)	<u>(197,000)</u>	<u>(172,000)</u>	<u>(155,986)</u>	<u>16,014</u>
Net change in fund balances	(1,142,860)	(1,012,499)	(1,631,727)	(632,038)
Prior year encumbrances	294,627	294,627	294,627	-
Fund balances, beginning of year	2,119,070	2,119,070	2,119,070	-
Fund balances, end of year	<u>\$ 1,270,837</u>	<u>\$ 1,401,198</u>	<u>\$ 781,970</u>	<u>\$ (632,038)</u>

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF FUND NET ASSETS -
INTERNAL SERVICE FUND
JUNE 30, 2003

	<u>Self Insurance</u>
Assets	
Equity in pooled cash	\$ 232,535
Liabilities	
Claims payable	<u>251,940</u>
Net assets	
Unrestricted	<u><u>\$ (19,405)</u></u>

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
 INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2003

	Self Insurance
Operating revenue	
Charges for services	\$ 952,404
Operating expenses	
Purchased services	66,325
Claims	1,094,740
Total operating expenses	1,161,065
Operating loss	(208,661)
Nonoperating revenue	
Interest income	10,909
Change in net assets	(197,752)
Net assets, beginning of year, as restated	178,347
Net assets, end of year	\$ (19,405)

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 STATEMENT OF CASH FLOWS -
 INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2003

	Self Insurance
Cash Flows From Operating Activities	
Cash received from interfund services	\$ 952,404
Cash payments for goods and services	(66,325)
Cash payments for claims	(991,817)
Net cash used in operating activities	(105,738)
Cash flows from investing activities	
Interest income	10,909
Net cash provided by investing activities	10,909
Net decrease in cash and cash equivalents	(94,829)
Cash and cash equivalents, beginning of year	327,364
Cash and cash equivalents, end of year	\$ 232,535
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (208,661)
Adjustments	
Increase in claims payable	102,923
Net cash used for operating activities	\$ (105,738)

See accompanying notes to the basic financial statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2003

	<u>Student Activities</u>
Assets	
Equity in pooled cash	<u>\$ 27,093</u>
Total assets	<u>27,093</u>
Liabilities	
Due to students	<u>27,093</u>
Total liabilities	<u>\$ 27,093</u>

See accompanying notes to the basic financial statements.

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OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Oberlin City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education consisting of five members and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2002 was 1,112. The District employs 104 certificated and 60 non-certificated employees.

REPORTING ENTITY

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

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

Blended component units, although legally separated entities are, in substance, part of the District's operations and so data from these units are combined with data of the District. The District's has no component units.

The District is associated with the Lake Erie Educational Computer Association, the Lake Erie Regional Council of Governments, the Lorain County Joint Vocational School District, and the Ohio Schools Council Association which are considered to be jointly governed organizations. These organizations and their relationships with the District are described in more detail in Note 19 to these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its governmental activities and proprietary fund. The following are the more significant of the District's accounting policies.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. FUND ACCOUNTING

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds

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

General Fund - the General Fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District's self insurance fund is classified as an internal service fund. The District has no enterprise funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The 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 District are included on the Statement of Net Assets. The Statement of Activities presents increases (revenues) and decreases (expenses) in the 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental statements.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS (continued)

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

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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and the fiduciary fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

E. BUDGETARY PROCESS

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 set 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 fund level for all funds.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources. 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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

Cash received by the District is deposited in one central bank account with individual fund balance integrity maintained through District records. Monies for all funds are maintained in this account or temporarily transferred to the State Treasury Asset Reserve of Ohio (STAROhio) or other short term investments. Under existing Ohio statutes, interest earnings are allocated to funds based on average monthly cash balances. Interest income earned for the year ended June 30, 2003 totaled \$ \$ 93,037.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The District has invested in the State Treasury Asset Reserve of Ohio (STAROhio) during the year. 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 on June 30, 2003.

Investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents.

G. RESTRICTED ASSETS

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

H. CAPITAL ASSETS

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

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

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

<u>Asset</u>	<u>Estimated Useful Life</u>
Land improvements	20 years
Buildings	50 years
Building improvements	20 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. 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 statement of net assets.

J. 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 District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The liability includes employees who are currently eligible to receive termination benefits and those the 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 District's termination policy.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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 year. Long-term obligations and capital leases are recognized as a liability on the governmental fund financial statements when due.

L. NET ASSETS

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

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. FUND BALANCE RESERVES AND DESIGNATIONS

The District reserves those portions of fund balance 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 balance which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, encumbrances and budget stabilization.

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

N. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of this fund. Revenues and expenses not meeting those definitions are reported as non-operating.

O. INTERFUND TRANSACTIONS

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.

P. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. INVENTORY

On government wide financial statements, inventories are presented at the lower of cost or market, on a first-in, first-out basis and are expensed when used. Inventories consist of donated food, purchased food and school supplies held for resale, and materials and supplies held for consumption.

OBERLIN CITY SCHOOL DISTRICT
 LORAIN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. CHANGES IN ACCOUNTING PRINCIPLES

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

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

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of the internal service fund, reclassification of funds based on guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

It was determined that enterprise funds should be reclassified to special revenue funds. The total fund balance amount reclassified pertaining to enterprise funds is \$ 54,920.

B. RESTATEMENT OF CAPITAL ASSETS

Capital assets have been restated based on revised information obtained from an inventory performed during the year and an increase of the District's capitalization policy to \$ 5,000. Beginning balances as of June 30, 2002 have been restated as follows:

	As Previously Reported June 30, 2002	Adjustment	As Restated June 30, 2002
Capital assets, cost	\$ 15,469,582	\$ 1,626,571	\$ 17,096,153

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (continued)

C. RESTATEMENT OF FUND BALANCE

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

	General Fund	Non-Major Governmental Funds	Total
Fund balances, June 30, 2002	\$ 2,290,961	\$ 405,099	\$ 2,696,060
Fund reclassification	-	75,443	75,443
Fixed assets, net	-	(12,012)	(12,012)
Deferred revenue	(73,056)	(5,040)	(78,096)
Inventories and supplies	-	2,810	2,810
Accrued expenses	17,585	25,275	42,860
Restated fund balances, June 30, 2002	\$ 2,235,490	\$ 491,575	2,727,065
GASB 34 adjustments			
Capital assets			7,024,468
Internal Service Fund			178,347
Long-term assets			473,769
Long-term liabilities			(1,537,921)
Governmental activities net assets, June 30, 2002			\$ 8,865,728

	Business-type Activities
Net assets, June 30, 2002	\$ 54,920
Fund reclassification	(54,920)
Adjusted net assets, June 30, 2002	\$ -

Net assets for the Internal Service Fund as of June 30, 2002, has been restated to \$ 178,347 to properly account for the District's medical insurance program. The medical insurance program had previously been accounted for in the General Fund. See Note 11 for additional information regarding this matter.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 4 – DEFICIT FUND EQUITY

At June 30, 2003, the following funds had deficit fund balances.

Non-major Funds:	
Education Technology	\$ (85,360)
E.M.I.S.	(13,546)
D.P.I.A.	(22,705)
Title 1	(60,774)
Title VI	(939)
Title VI-R	(7,942)
	<u>\$ (191,266)</u>
Internal Service Fund:	
Self Insurance	<u>\$ (19,405)</u>

The General Fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 statements are the following:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$ (1,631,727)
Net Adjustments for Revenue Accruals	(179,115)
Net Adjustments for Expenditure Accruals	43,797
Net Adjustment for Other Sources (uses)	(18,141)
Net Adjustments for Encumbrances	<u>137,895</u>
GAAP Basis	\$ <u>(1,647,291)</u>

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

Interim 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.

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

Interim monies may be 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 principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper and bankers' acceptances (if authorized by the Board of Education), and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the District had \$ 200 in cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the District's deposits was \$ 1,437,506 and the bank balance was \$ 1,260,485, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the District.

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value
Federal Agency Obligations	\$ 100,000	\$ 100,000
STAROhio		455,298
		\$ 555,298

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 1,993,004	\$ -
Cash on hand	(200)	-
Federal Agency Obligation	(100,000)	100,000
Investment in State Treasurer's Investment Pool	(455,298)	455,298
GASB Statement No. 3	\$ 1,437,506	\$ 555,298

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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7 - PROPERTY TAXES (continued)

The School District receives property taxes from Lorain 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, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$324,361 in the General Fund, \$15,189 in the Education Technology Fund, and \$30,191 in the Capital Projects Fund. The amount available as an advance at June 30, 2002, was \$482,279 in the General Fund, \$15,420 in the Education Technology Fund, \$21,229 in the Debt Service Fund, and \$42,231 in the Capital Projects 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.

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2002 First Half Collections		2003 Second Half Collections	
	Amount	%	Amount	%
Agricultural Residential				
Real Estate	\$ 105,325,270	67.86 %	\$ 107,281,670	69.94 %
Other Commercial	31,513,950	20.31	32,639,940	21.28
Public Utility Tangible	4,383,120	2.82	4,435,220	2.89
Tangible Personal Property	13,978,100	9.01	9,029,840	5.89
	<u>\$ 155,200,440</u>	<u>100.00 %</u>	<u>\$ 153,386,670</u>	<u>100.00 %</u>
Tax Rate per \$ 1,000 of Assessed Valuation:	<u>67.42</u>		<u>66.42</u>	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, income tax, and interest revenue. All receivables are considered substantially collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance June 30, 2002 (As Restated)	Additions	Disposals	Balance June 30, 2003
Nondepreciable capital assets				
Land	\$ 2,279,070	\$ -	\$ -	\$ 2,279,070
Depreciable capital assets				
Land improvements	1,065,943	48,344	-	1,114,287
Buildings and improvements	12,458,071	18,269	-	12,476,340
Furniture and equipment	737,114	36,684	-	773,798
Vehicles	555,955	-	-	555,955
Total capital assets being depreciated	<u>14,817,083</u>	<u>103,297</u>	<u>-</u>	<u>14,920,380</u>
Less accumulated depreciation				
Land improvements	703,240	47,434	-	750,674
Buildings and improvements	8,483,800	314,030	-	8,797,830
Furniture and equipment	436,694	37,087	-	473,781
Vehicles	447,951	30,479	-	478,430
Total accumulated depreciation	<u>10,071,685</u>	<u>429,030</u>	<u>-</u>	<u>10,500,715</u>
Depreciable capital assets, net of accumulated depreciation	<u>4,745,398</u>	<u>(325,733)</u>	<u>-</u>	<u>4,419,665</u>
Governmental activities capital assets, net	<u>\$ 7,024,468</u>	<u>\$ (325,733)</u>	<u>\$ -</u>	<u>\$ 6,698,735</u>

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	381,032
Vocational		151
Supporting services		
Instructional staff		362
Board of education		11,372
Administration		3,826
Operation and maintenance of plant		225
Pupil transportation		30,479
Operation of non-instructional services		
Food service		493
Extracurricular activities		
Sports oriented		1,090
Total depreciation expense	\$	<u>429,030</u>

NOTE 10 - INTERFUND ACTIVITY

On the fund financial statements at June 30, 2003, interfund balances consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
Major Fund:		
General Fund	\$ 184,859	\$ -
Non-major Funds:		
Education Technology	-	172,000
Title I	-	6,867
Title V	-	963
Title II	-	4,141
Miscellaneous Federal Grants	-	888
Total Non-major Funds	<u>-</u>	<u>184,859</u>
	<u>\$ 184,859</u>	<u>\$ 184,859</u>

These amounts are represented as "Interfund Receivable/Payable" on the balance sheet. The loans were made to support programs and projects in the Special Revenue Funds.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 - INTERFUND ACTIVITY (continued)

During the year ended June 30, 2003, the General fund transferred \$ 174,127 to the nonmajor governmental funds to provide for the payment of expenditures.

	Transfers In	Transfers Out	
Major Fund:			
General Fund	\$ -	\$ 174,127	
Non-major Funds:			
Trust Funds	13	-	
Title I	217	-	
Public School Support	130	-	
Miscellaneous Grants	108	-	
Block Grant	621	-	
Wellness/Preschool Grant	454	-	
E.M.I.S.	167,100	-	
Title VIB	5,171	-	
Schoolnet	313	-	
Total Non-major Funds	174,127	-	
	\$ 174,127	\$ 174,127	

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District contracted with the Hartford Insurance Company for property insurance. Professional liability is covered by the Ohio School Plan with a \$ 2,000,000 umbrella and a \$ 3,000,000 aggregate limit. Vehicles are covered by the Nationwide Insurance Company. Automobile liability has a \$ 2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

Public officials bonds of \$ 20,000 each are maintained for the Superintendent, Board Members, Principals, Assistant Treasurer, and Athletic Director, and bonds of \$ 10,000 each for the Cafeteria Supervisor and the Confidential Secretary to the Treasurer through Nationwide Insurance Company. A public official bond in the amount of \$ 50,000 is maintained for the Treasurer, also through the Nationwide Insurance Company.

The District participates in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of 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.

OBERLIN CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT (continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The District has contracted with Lake Erie Regional Employee Protection Plan (LEEP) to provide medical/surgical and dental benefits for its employees and their dependents. The LEEP is a shared risk pool comprised of fourteen school districts that provide public education within Lorain County.

The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for the employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$ 165,000 per participant.

Premium contributions are determined annually based on the claims experience of the individual district. Premiums can be increased or decreased by up to 20% of the prior year's contribution. Member districts may become liable for additional contributions to fund the liability of the pool. Upon termination, the terminating district would be liable for all outstanding claims beyond its individual account balance.

The claim liability of \$ 251,940 reported at June 30, 2003, was estimated by LERC and is based on the requirements of Governmental Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense. Changes in the balance of claims liability during the year ended June 30, 2003 are summarized below. Changes in the balance of claims liability during the year ended June 30, 2002 are not available due to this fund previously being part of the General Fund. Incurred claims and claims payments are not segregated between current and prior year's claims due to the impracticability of obtaining such information.

	June 30, 2003
Unpaid claims, beginning of year	\$ 149,017
Incurred claims	1,094,740
Claims payments	(991,817)
Unpaid claims, end of year	\$ 251,940

Life insurance is through the Ohio Educational Employees Insurance Trust. The life insurance is term life with a limit of \$ 40,000 for classified employees and \$ 50,000 for certified employees through UNUM Life Insurance Company of America.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% 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 statutory maximum amounts, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2003, 2002, and 2001 were \$ 194,800, \$ 199,000, and \$ 180,000, respectively. The full amount has been contributed for 2002 and 2001. For 2003, \$ 83,700 (43%) has been contributed. \$ 111,100 represents the unpaid contribution for fiscal year 2003.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS Ohio)

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

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 members designated beneficiary is entitled to receive the member's account balance.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS Ohio) (continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed the 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 District's required contribution for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 757,500, \$ 730,000, and \$ 726,000, respectively. For 2003, \$ 629,100 (83%) has been contributed. The full amount has been contributed for 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$ 350 made by the District and \$ 565 made by plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2002 Comprehensive Annual Financial Report can be requested by writing STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, or by calling 614-227-4090.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The 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-certified 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 54,100 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$ 3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$ 354,697,000 and STRS had 105,300 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$ 14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$ 148,800.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$ 182,946,777 and the target level was \$ 274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$ 335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2002	Increase	Decrease	Balance June 30, 2003	Amounts Due In One Year
Bonds payable	\$ 397,600	\$ -	\$ 279,200	\$ 118,400	\$ 59,200
Capital leases	116,624	-	45,942	70,682	40,365
Compensated absences	1,211,319	717,076	375,884	1,552,511	246,907
	<u>\$ 1,725,543</u>	<u>\$ 717,076</u>	<u>\$ 701,026</u>	<u>\$ 1,741,593</u>	<u>\$ 346,472</u>

Principal and interest requirements to retire bonds payable outstanding at June 30, 2003, were as follows:

Year ending June 30,	Principal	Interest	Total
2004	\$ 59,200	\$ 6,749	\$ 65,949
2005	59,200	3,374	62,574
	<u>\$ 118,400</u>	<u>\$ 10,123</u>	<u>\$ 128,523</u>

Bonds payable will be repaid from the Debt Service Fund. The capital lease obligations will be repaid from the General Fund and the Capital Improvements Fund. Compensated absences will be repaid from the funds from which employees' salaries are paid.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 15 – BONDS PAYABLE

Bonds payable at year end consisted of:

	<u>Outstanding June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2003</u>
General obligation bonds				
School Improvement , (1979) 6.00% through 2002	\$ 40,000	\$ -	\$ 40,000	\$ -
School Improvement , (1981) 11.75% through 2002	180,000	-	180,000	-
Energy conservation (1996) 5.70% through 2004	177,600	-	59,200	118,400
	<u>\$ 397,600</u>	<u>\$ -</u>	<u>\$ 279,200</u>	<u>\$ 118,400</u>

The original amount of bonds issued in 1979, 1981 and 1996 were \$ 900,000, \$ 3,590,000 and \$ 532,790 respectively.

NOTE 16 – CAPITAL LEASE

The District has entered into lease agreements for financing certain communications equipment and certain copier equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of June 30, 2003.

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Communications equipment	\$ 175,706	\$ (122,994)	\$ 52,712
Copier equipment	39,265	(35,339)	3,926
	<u>\$ 214,971</u>	<u>\$ (158,333)</u>	<u>\$ 56,638</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, are as follows:

	<u>Year Ending June 30,</u>	<u>Amount</u>
	2004	\$ 43,889
	2005	<u>31,186</u>
Total minimum lease payments		75,075
Less amount representing interest		<u>(4,393)</u>
Net present value of minimum lease payments		<u>\$ 70,682</u>

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 17 – OPERATING LEASE

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2003, expenditures for operating leases totaled \$ 49,000.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003.

Year ending June 30,	Amount
2004	\$ 46,517
2005	46,236
2006	14,651
Total minimum lease payments	<u>\$ 107,404</u>

NOTE 18 - SET-ASIDES

The 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 and used for the same purposes in future years. In addition, the District has set aside money for budget stabilization. The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003.

	Textbook	Capital Maintenance	Budget Stabilization
Balance, July 1, 2002	\$ (363,181)	\$ -	\$ 396,064
Required set aside	151,271	151,271	0
Offset credits	0	(304,248)	0
Qualifying expenditures	<u>(213,339)</u>	<u>(581,770)</u>	<u>0</u>
Balance, June 30, 2003	<u>\$ (425,249)</u>	<u>\$ (734,747)</u>	<u>\$ 396,064</u>
Carry forward at June 30, 2003	<u>\$ (425,249)</u>	<u>\$ 0</u>	<u>\$ 396,064</u>

Expenditures and offset credits for textbooks and capital maintenance during the year were \$ 213,339 and \$ 581,770, respectively, which exceeded the required set-aside and the reserve balance. Textbook expenditures have exceeded statutory requirements by \$ 425,249 which may be used as offset credits for future years' set aside requirements. Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future years.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

A. LAKE ERIE EDUCATIONAL COMPUTER ASSOCIATION

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of thirty school districts. The jointly governed organization was formed to provide data processing services for accounting, administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge dependent upon the software packages utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent.

LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2003, the District paid \$ 152,850 to LEECA.

B. LAKE ERIE REGIONAL COUNCIL OF GOVERNMENTS (LERC)

The Lake Erie Regional Council of Governments (LERC) is a jointly governed organization among fourteen school districts. The jointly governed organization was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, food service and insurance. Each member provided operating resources to LERC on a per pupil or usage charge, except for insurance. The LERC assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. LERC is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County located at 1885 Lake Avenue, Elyria, Ohio 44035. During the year ended June 30, 2003 the District paid \$ 97,602 to LERC.

C. LORAIN COUNTY JOINT VOCATIONAL SCHOOL DISTRICT

The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide vocational and special education needs of the students. The Board of the Lorain County Joint Vocational School District is comprised of representatives from each participating school district and is responsible for approving its own budgets, appointing personnel, accounting, and financing related activities.

Each School District's control is limited to its representation on the Board. The Oberlin City School District's students may attend the Lorain County Joint Vocational School District. Financial information can be obtained by contacting the Lorain County Joint Vocational School District, 15181 State Route 58, Oberlin, Ohio 44074.

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (continued)

D. OHIO SCHOOLS COUNCIL

The Ohio Schools Council (the Council) is a jointly governed organization among eighty-three school districts. The Council was formed for the purpose of promoting cooperative agreements and activities among its members in dealing with problems of mutual concern such as a media center, gas consumption, driver education, food service, and insurance. Each member provided operating resources to the Council on a per pupil or actual usage charge, except for insurance.

The Council assembly consists of a superintendent or designated representative from each participating district and the fiscal agent. The Council is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the Executive Secretary/Treasurer, Ohio Schools Council, 6133 Rockside Road, Suite 10, Independence, Ohio 44131. During the year ended June 30, 2003, the District paid approximately \$ 1,081 to the Ohio Schools Council.

NOTE 20 - SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 21 - CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

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

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550		\$ 11,149		\$ 11,149
School Breakfast Program	05-PU 2002/03	10.553	\$ 24,261		\$ 24,261	
National School Lunch Program	LLP4 2002/03	10.555	115,068		115,068	
Total U.S. Department of Agriculture - Nutrition Cluster			139,329	11,149	139,329	11,149
U.S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
Title I Grants to Local Education Agencies	C1-S1 02	84.010	3,100		3,100	
	C1-S1 03		243,073		249,940	
Total Title I Grants			246,173		253,040	
Special Education Cluster						
Special Education - Grants to States	6B-SF 2002-P	84.027	1,440		9,597	
	6B-SF 2003-P		137,903		133,144	
Total Special Education - Grants to States			139,343		142,741	
Special Education - Preschool	PG-S1 2002-P	84.173			2,737	
	PG-S1 2003-P		9,061		9,061	
Total Special Education - Preschool			9,061		11,798	
Total Special Education Cluster			148,404		154,539	
Safe and Drug Free Schools & Community	DR-S1 2003	84.186	7,214		7,214	
Eisenhower Professional Development	MS-S1 2002	84.281	87		2,203	
Innovative Education Program	C2-S1 2001	84.298			395	
	C2-S1 2002				495	
	C2-S1 2003		2,765		1,733	
Total Innovative Education Program			2,765		2,623	
Technology Literacy Challenge Fund Grants	TJ-S1 2003	84.318	1,871		867	
	TFVL-2000				348	
Total Technology Literacy Challenge			1,871		1,215	
School Renovation Grant	AT-S3 2002	84.352A	10,334		3,245	
Title VI Class Size Reduction	CR-S1-02	84.340			6,077	
Improve Teacher Quality	TR-S1 2003	84.367	63,946		68,087	
Goals 2000	G2-S2-2001	84.276			13,824	
Total U.S. Department of Education			480,794		512,067	
Total Federal Assistance			\$ 620,123	\$ 11,149	\$ 651,396	\$ 11,149

The notes to the Schedule of Federal Awards, Receipts, and Expenditures are an integral part of this statement.

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures and Receipts (Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

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 nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

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

Board of Education
Oberlin City School District
Lorain County
153 North Main Street
Oberlin, Ohio 44074

We have audited the financial statements of the Oberlin City School District, Lorain County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 16, 2004, wherein we noted the District changed the capitalization threshold for capital assets and adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 16, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 16, 2004.

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Oberlin City School District
Lorain County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

April 16, 2004



Auditor of State Betty Montgomery

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

Board of Education
Oberlin City School District
Lorain County
153 North Main Street
Oberlin, Ohio 44074

Compliance

We have audited the compliance of the Oberlin City School District, Lorain County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated April 16, 2004.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 16, 2004.

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

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

Betty Montgomery
Auditor of State

April 16, 2004

**OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1 Grants to Local Educational Agencies – CFDA# 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY
JUNE 30, 2003

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
(Continued)

**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

OBERLIN CITY SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeding total appropriations	No	Partially Corrected. Reported in the Management Letter.

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**Auditor of State
Betty Montgomery**

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OBERLIN CITY SCHOOL DISTRICT

LORAIN 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
JUNE 3, 2004**