



**Auditor of State
Betty Montgomery**

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Miscellaneous Federal Grant Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

December 5, 2006

Conneaut Area City School District
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As management of the Conneaut Area City School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- For governmental activities, net assets decreased by \$2.935 million, which represents a 5 percent decrease from 2004. Net assets of business-type related activity increased by \$0.43 million or 6 percent from 2004.
- General revenues accounted for \$17.4 million or 80.7 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4.16 million or 19.3 percent of total governmental revenues of \$21.6 million.
- The District had \$24.5 million in expenses related to governmental activities; only \$4.16 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and grants) of \$17.4 million were inadequate to provide for these programs.
- Among major funds, the general fund had \$15.9 million in revenues and \$16.7 million in expenditures. The general fund's fund balance decreased to \$1.3 million from \$2.1 million.
- The miscellaneous federal grants had \$1.7 million in revenues and \$2.6 million in expenditures, which resulted in a decrease of the fund balance of 104 percent.
- The construction project fund had \$3.4 million in revenue and \$8.9 million in expenditures, which resulted a decrease of the fund balance from \$7.6 million to \$2.1 million.
- Net assets for enterprise funds increased by \$0.4 million. Total enterprise expenditures were \$0.8 million, which all of these expenses was offset by program specific charges for services, grants or contributions.

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Ashtabula County
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Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District basic financial statements comprise three components: (1) government-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements The government-wide financial statements are designed to provide reader with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, supporting service, operation of non-instructional services, extracurricular activities, and interest and fiscal charges. The business-type activities of the District include only lunchroom.

The government-wide financial statements can be found on pages 17-19 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like the state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary fund, and fiduciary fund.

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Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general governmental 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 difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The basic fund financial statements can be found on pages 20-25 of this report.

Proprietary Fund Proprietary fund uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in statements for the District as a whole.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary Fund Fiduciary fund are used to account for resources held for the benefit of parties outside the government. Fiduciary fund is not reflected in the government-wide financial statement because the resources of these fund is not available to support the District's own programs. The accounting used for fiduciary fund is much like that used for proprietary fund.

The basic fiduciary fund financial statements can be found on page 29 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-57 of this report.

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Ashtabula County
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Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case of the District, assets exceeded liabilities by \$43 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (84 percent) reflects its investment in capital assets (e.g., land, buildings, equipments, furniture, and vehicles), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Conneaut Area City School District's Net Assets
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets:						
Current and Other Assets	\$ 26.16	\$ 14.35	\$ 0.14	\$ 0.20	\$ 26.30	\$ 14.55
Capital Assets	34.58	41.65	-	0.38	34.58	42.03
<i>Total Assets</i>	60.74	56.00	0.14	0.58	60.88	56.58
Liabilities:						
Current Liabilities	7.51	5.97	0.04	0.03	7.55	6.00
Long-term Liabilities	8.46	7.66	0.02	0.02	8.48	7.68
<i>Total Liabilities</i>	15.97	13.63	0.06	0.05	16.03	13.68
Net Assets:						
Invested in Capital Assets, Net of Related Debt	28.01	35.50	-	0.38	28.01	35.88
Restricted	15.70	6.52	-	-	15.70	6.52
Unrestricted	1.06	0.35	0.08	0.15	1.14	0.50
<i>Total Net Assets</i>	\$ 44.77	\$ 42.37	\$ 0.08	\$ 0.53	\$ 44.85	\$ 42.90

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An additional portion of the District's net assets (15 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$0.36 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets decreased by \$2.5 million during the current fiscal year. Most of the decrease is attributable to the end of capital grants and contribution from the state for the new high school facility construction.

Governmental Activities. Governmental activities decreased the District's net assets by \$2.9 million, thereby accounting for 5 percent of the total decline in the net assets of the District. Key elements of this increase are as follows:

- Operating grants and contributions for governmental activities decreased by \$0.9 million; mostly as a result of decrease in receiving grants from the federal and state governments by the District during the current fiscal year.
- Capital grants and contribution decreased by \$18 million. The District had received all the aids from the state government during the prior year.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 13.6 percent of revenue for governmental activities for Conneaut Area City School District in fiscal year 2005, a slight increase from prior years.

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For the most part, increases in expenses closely paralleled inflation and growth in demand for services. The District spent \$23.8 million in the current year, which was 17 percent more than previous year. Among all expenses, expenses on instruction and support services increased the most, approximately \$1.7 million and \$1.4 million, respectively, to total of \$3.1 million.

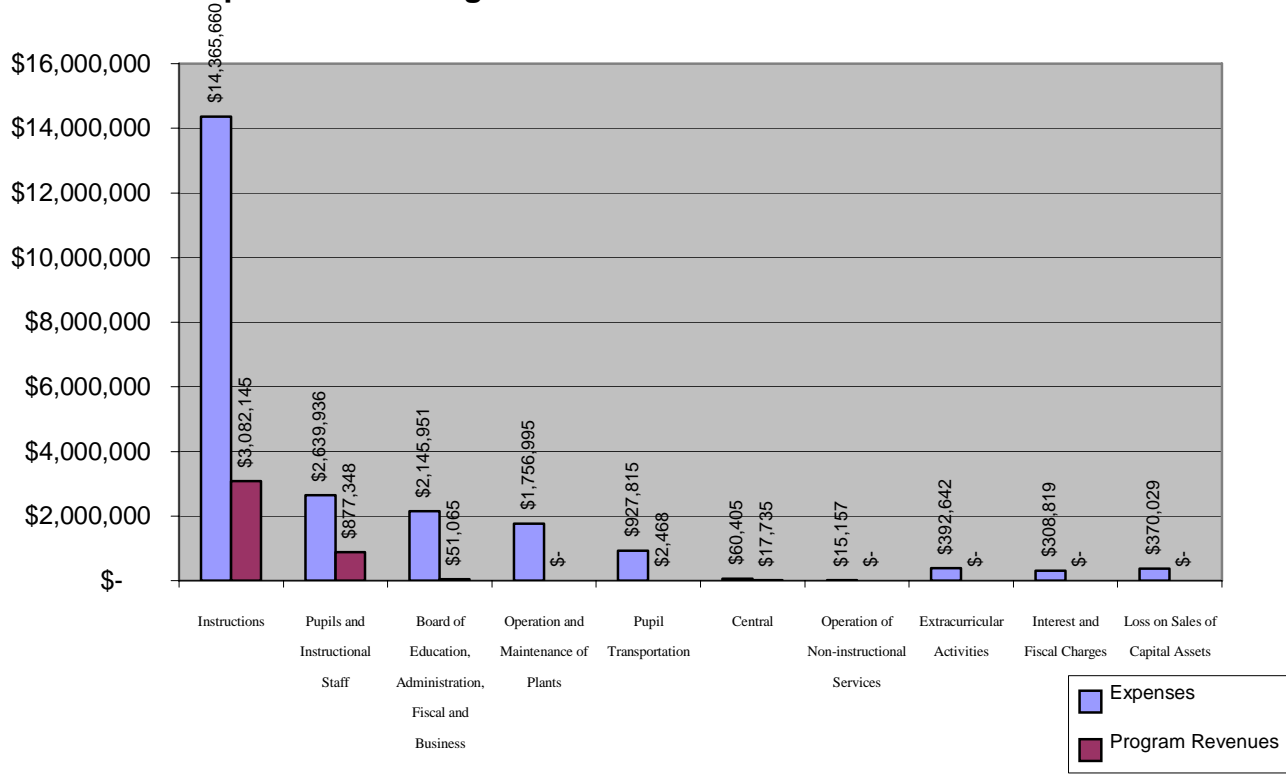
Conneaut Area City School District
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Conneaut Area City School District's Changes in Net Assets

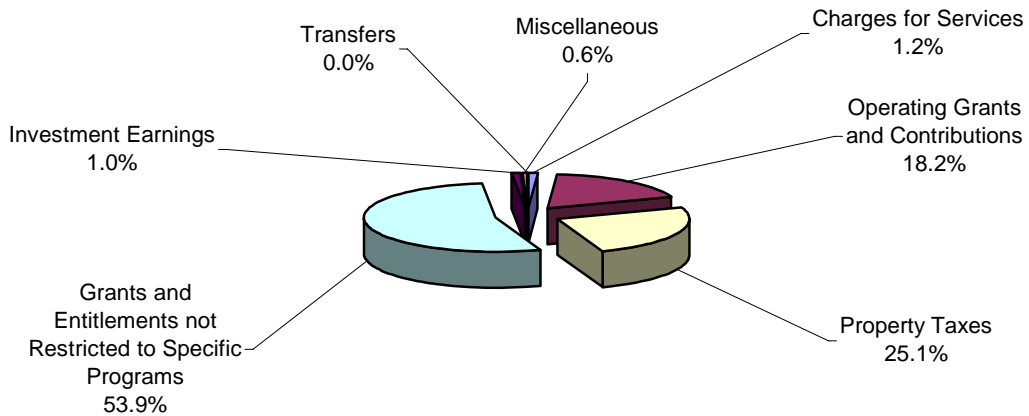
	Governmental Activities		Business-type Activities	
	2004	2005	2004	2005
Revenue:				
Program Revenues:				
Charges for Services and Sales	\$ 110,623	\$ 217,286	\$ 270,639	\$ 284,001
Operating Grants and Contributions	4,809,394	3,938,884	499,130	558,296
Capital Grants and Contributions	17,951,609	-	-	379,807
General Revenues:				
Property Taxes	5,466,633	5,424,908	-	-
Grants and Entitlements	11,435,188	11,655,696	-	-
Investment Earnings	200,242	205,777	899	1,998
Miscellaneous	108,639	123,367	-	-
Transfers	18	2,490	-	-
Total Revenues and Transfers	40,082,346	21,568,408	770,668	1,224,102
Expenses:				
Instructions:				
Regular	9,947,002	11,546,776	-	-
Special	2,075,568	2,091,054	-	-
Vocational	138,395	202,384	-	-
Other	494,336	525,446	-	-
Support Services:				
Pupils	973,529	1,319,968	-	-
Instructional Staff	1,682,843	2,126,000	-	-
Board of Education	17,631	23,860	-	-
Administration	1,613,655	1,716,867	-	-
Fiscal	533,819	401,531	-	-
Business	13,401	3,693	-	-
Operation and Maintenance of Plant	1,330,918	1,756,995	-	-
Pupil Transportation	758,389	927,815	-	-
Central	49,988	60,405	-	-
Operation of Non-instructional Services	8,275	15,157	-	-
Extracurricular Activities	361,787	392,642	-	-
Fiscal and Interest Charges	332,790	308,819	-	-
Loss of Sales of Capital Assets	-	1,084,538	-	-
Food Services	-	-	793,108	798,846
Total Expenses	20,332,326	24,503,950	793,108	798,846
Changes in Net Assets	19,750,020	(2,935,542)	(22,440)	425,256
Changes in Net Assets	19,750,020	(2,935,542)	(22,440)	425,256
Beginning Net Assets, Restated	27,402,062	45,542,239	156,506	98,899
Prior Period Adjustments	(2,382,692)	-	(62,416)	-
Ending Net Assets	\$ 44,769,390	\$ 42,606,697	\$ 71,650	\$ 524,155

Conneaut Area City School District
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Expenses and Program Revenues - Governmental Activities

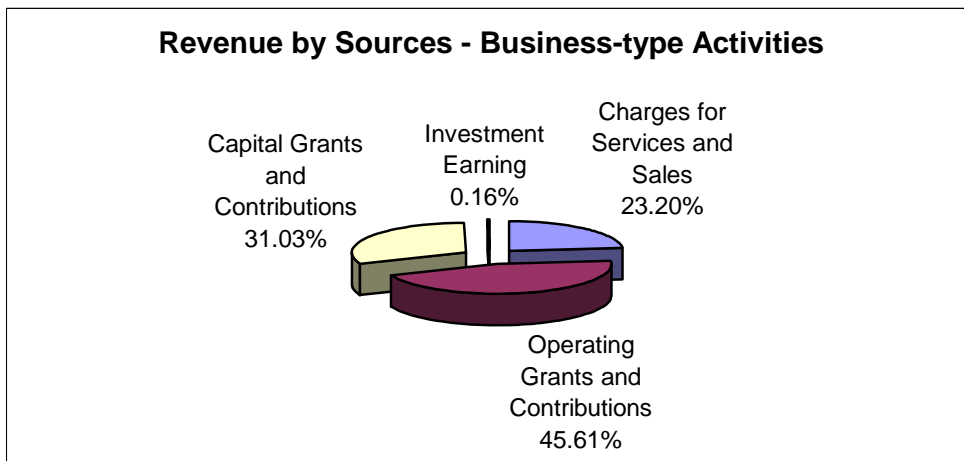
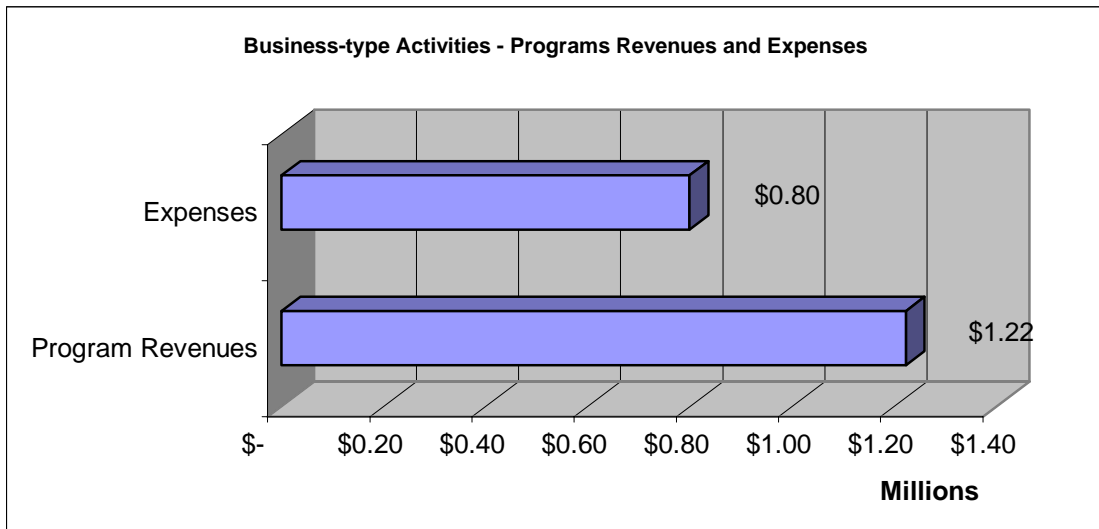


Revenues by Source - Governmental Activities



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Business-Type Activity. Business-type activity include only lunchroom operation. The lunchroom had program revenues of \$1,222,104 and general revenue of \$1,998, and expenses of \$798,846 for the fiscal year 2005. This resulted in a increase to net assets for the fiscal year of \$425,256, which was the result of contributed capital from the governmental activities in the current year. The lunchroom is self-supporting through user fees and charges. The management assesses their performance to ensure that it is run efficiently.



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Financial Analysis of the Government's Funds

Governmental Fund. Information about the District's major funds starts on page 20. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24.2 million and expenditures of \$31.2 million. The total governmental fund balance decreased \$7 million. The net change in governmental fund balance for the year was most significant in the construction project fund, where the construction project fund's net assets decreased by \$5.6 million for fiscal year 2005.

Key factors in this decreased of fund balance for the major governmental funds are as follows:

- While the revenues in General Fund increased approximately \$0.2 million, the expenditures increased significantly, around \$0.5 million, and it resulted in a net change in fund balance of negative \$0.7 million.
- Miscellaneous Federal Grants Fund received \$1.7 million in revenue. However, the District spent \$2.6 million in the current year. It contributed to the deficit of \$39 thousand at the end of the year.
- The Construction Project Funds brought in \$3.4 million of revenue during the current year, but \$8.9 million were spent for the new high school facility, and it decreased the fund balance by \$5.6 million.

Proprietary Fund. Information about the District's proprietary fund starts on page 23. Since Lunchroom Fund is the only fund, the analysis is presented on the business-type activity.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005 the District amended its General Fund and Miscellaneous Federal Grants Fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

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For the General Fund, budget basis revenue was \$17.0 million, over the original budget estimate of \$18.1 million. Of this \$1.1 million difference, intergovernmental revenue decreased approximately \$0.1 million and miscellaneous revenue decreased approximately \$1.0 million over original estimates. These two revenue line items fluctuate year to year and are budgeted on a conservative basis to avoid revenue overestimations.

Different between the original budget appropriations and the final amended budget appropriations of the General Fund were approximately \$28 thousand and can be briefly summarized as follows:

- Instruction decreased approximately \$69 thousand
- Supporting service increased approximately \$377 thousand
- Miscellaneous revenue decreased approximately \$997 thousand
- Advances and transfers increased approximately \$579 thousand

For Miscellaneous Federal Grants Fund, budget basis revenue was \$31 thousand less than the original budget estimate of \$2.5 million, which could be accounted from intergovernmental revenues. As for appropriations, the final budget decreased by \$31 thousand over the original budget, which was the result of decrease in budget revenue at the end of the year.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amount to \$42 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, equipment, furniture, vehicles and textbooks. The total increase in the District's investment in capital assets for the current fiscal year was 18 percent. Both net capital assets in governmental and business-type activities increased by 21 percent and 51 percent.

Major capital asset events during the current year included the following:

- The District performed a count on its capital assets in fiscal 2005, which resulted in a restatement on the beginning capital assets.
- Construction continued for the new high school facilities; construction in progress added \$8.9 millions to the District's capital assets.

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- \$31 million of the construction in progress was reclassified to land improvements, building and improvement, furniture, equipment and fixtures as two buildings were completed and in used in the current year.

Conneaut Area City School District's Capital Assets

	Governmental Activities		Business-type Activities	
	2004	2005	2004	2005
Land and Improvements	\$ 1,114,072	\$ 1,935,293	\$ -	\$ -
Buildings and Improvements	1,870,695	27,516,000	-	-
Furniture/Equipment/Fixtures	774,975	1,368,736	45,190	371,162
Vehicles	544,426	449,612	10,367	4,447
Textbooks	-	285,911	-	-
Construction in Progress	32,659,747	10,334,153	-	-
Total Capital Assets, Net	\$ 36,963,915	\$ 41,889,705	\$ 55,557	\$ 375,609

(Net of Depreciation)

Additional information on the District's capital assets can be found in note 5 of the basic financial statements.

Debt. At June 30, 2005, the District had \$6,159,002 in general obligation bonds and notes outstanding. Of this total, \$420,406 is due within one year and \$5,738,596 is due more than one year. The following table summarizes the bonds and notes outstanding.

Conneaut Area City School District's Outstanding Debt
General Obligation Bonds and Notes

	Governmental Activities	
	2004	2005
General Obligation Bonds	\$ 6,555,895	\$ 6,150,895
Asbestos Notes	13,513	8,107
Total	\$ 6,569,408	\$ 6,159,002

The District retired \$405,000 of general obligation bonds and \$5,607 of asbestos notes. Additional information on the District's long-term debt can be found in note 12 of the basic financial statements.

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Set-Aside Requirements

For fiscal year 1999, a change in Ohio law required school districts to set aside two percent of certain revenues for capital improvements and an additional two-percent for textbooks; this amount was increased to three percent beginning in fiscal year 2000. For fiscal year 2005, this amounted to \$349,002 for each set aside. For fiscal year 2005, the District carried \$163,494 forward to fiscal year 2005.

Current Financial Related Activities

Conneaut Area City School District is strong financially. As the preceding information shows, the District heavily depends on its property taxpayers. With the passage of a 6.9 mill operating levy and collection beginning January 2003 the District has been able to continue its education programs. However, financially the future is not without challenges.

While the District was successful in increasing its tax revenue base in 2000, this increase is a one-time increase. State law fixes the amount of this increase, forcing it to remain nearly constant. Thus management must diligently plan expenses, staying carefully within the District's five-year forecast.

Declining state foundation payments due to increased property valuations provide no significant increase in future revenues. This decline is due to the increasing valuation charge-offs in determining state foundation payments. The increases in property tax revenues are almost offset to decreases in state foundation payments. With its major sources of revenue not keeping pace with expenditure increases, the District must seek additional tax revenues to continue current operations. However, the District cannot look to the State of Ohio for increased revenue.

The scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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

Conneaut Area City School District
Ashtabula County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Linda Bryan, Treasurer at Conneaut Area City School District, 263 Liberty Street, Conneaut, Ohio 44030.

Conneaut Area City School District
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 6,990,960	\$ 126,698	\$ 7,117,658
Receivables:			
Taxes	5,952,575	-	5,952,575
Accounts	2,492	165	2,657
Intergovernmental	1,350,450	67,619	1,418,069
Internal Balances	13,921	(13,921)	-
Inventory Held for Resale	-	18,780	18,780
Materials and Supplies Inventory	39,848	3,022	42,870
Nondepreciable Capital Assets	11,356,321	-	11,356,321
Depreciable Capital Assets, Net	<u>30,533,384</u>	<u>375,609</u>	<u>30,908,993</u>
<i>Total Assets</i>	<u>56,239,951</u>	<u>577,972</u>	<u>56,817,923</u>
Liabilities			
Accounts Payable	359,136	35,763	394,899
Accrued Wages and Benefits	1,714,424	878	1,715,302
Intergovernmental Payable	20,883	13	20,896
Pension Obligation Payable	489,469	-	489,469
Unearned Revenue	3,360,497	-	3,360,497
Accrued Interest Payable	23,888	-	23,888
Long-Term Liabilities:			
Due Within One Year	640,887	2,369	643,256
Due Within More Than One Year	<u>7,024,070</u>	<u>14,794</u>	<u>7,038,864</u>
<i>Total Liabilities</i>	<u>13,633,254</u>	<u>53,817</u>	<u>13,687,071</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	35,730,703	375,609	36,106,312
Restricted for:			
Capital Projects	5,059,892	-	5,059,892
Debt Service	417,177	-	417,177
Other Purposes	1,043,168	-	1,043,168
Unrestricted (Deficit)	<u>355,757</u>	<u>148,546</u>	<u>504,303</u>
<i>Total Net Assets</i>	<u>\$ 42,606,697</u>	<u>\$ 524,155</u>	<u>\$ 43,130,852</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$ 11,546,776	\$ 91,692	\$ 2,101,024	\$ -
Special	2,091,054	-	889,244	-
Vocational	202,384	-	-	-
Other	525,446	185	-	-
Support Services:				
Pupils	1,319,968	-	505,961	-
Instructional Staff	2,126,000	-	371,387	-
Board of Education	23,860	-	-	-
Administration	1,716,867	-	47,372	-
Fiscal	401,531	-	-	-
Business	3,693	-	3,693	-
Operation and Maintenance of Plant	1,756,995	-	-	-
Pupil Transportation	927,815	-	2,468	-
Central	60,405	-	17,735	-
Operation of Non-Instructional Services	15,157	-	-	-
Extracurricular Activities	392,642	125,409	-	-
Interest and Fiscal Charges	308,819	-	-	-
Loss of Sales of Capital Assets	1,084,538	-	-	-
<i>Total Governmental Activities</i>	<u>24,503,950</u>	<u>217,286</u>	<u>3,938,884</u>	<u>-</u>
Business-Type Activities				
Food Service	798,846	284,001	558,296	379,807
<i>Total Business-Type Activities</i>	<u>798,846</u>	<u>284,001</u>	<u>558,296</u>	<u>379,807</u>
Totals	<u>\$ 25,302,796</u>	<u>\$ 501,287</u>	<u>\$ 4,497,180</u>	<u>\$ 379,807</u>

General Revenues:
Property Taxes Levied for:
 General Purposes
 Maintenance
 Debt Service
 Capital Projects
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous
Transfers

Total General Revenues and Transfers

Changes in Net Assets

Net Assets Beginning of Year - As Restated (See Note 17)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (9,354,060)	\$ -	\$ (9,354,060)
(1,201,810)	-	(1,201,810)
(202,384)	-	(202,384)
(525,261)	-	(525,261)
(814,007)	-	(814,007)
(1,754,613)	-	(1,754,613)
(23,860)	-	(23,860)
(1,669,495)	-	(1,669,495)
(401,531)	-	(401,531)
-	-	-
(1,756,995)	-	(1,756,995)
(925,347)	-	(925,347)
(42,670)	-	(42,670)
(15,157)	-	(15,157)
(267,233)	-	(267,233)
(308,819)	-	(308,819)
(1,084,538)	-	(1,084,538)
<u>(20,347,780)</u>	<u>-</u>	<u>(20,347,780)</u>
-	423,258	423,258
-	423,258	423,258
<u>\$ (20,347,780)</u>	<u>\$ 423,258</u>	<u>\$ (19,924,522)</u>
\$ 4,347,699	\$ -	\$ 4,347,699
76,925	-	76,925
230,678	-	230,678
769,606	-	769,606
11,655,696	-	11,655,696
205,777	1,998	207,775
123,367	-	123,367
2,490	-	2,490
<u>17,412,238</u>	<u>1,998</u>	<u>17,414,236</u>
(2,935,542)	425,256	(2,510,286)
<u>45,542,239</u>	<u>98,899</u>	<u>45,641,138</u>
<u>\$ 42,606,697</u>	<u>\$ 524,155</u>	<u>\$ 43,130,852</u>

Conneaut Area City School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Miscellaneous Federal Grants	Project Construction	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Investments	\$ 973,355	\$ 189,128	\$ 2,066,755	\$ 3,598,228	\$ 6,827,466
Receivables:					
Taxes	4,855,136	-	-	1,097,439	5,952,575
Accounts	1,119	-	-	1,373	2,492
Intergovernmental	-	811,846	-	538,604	1,350,450
Interfund Receivable	599,679	-	-	-	599,679
Due from Other Funds	73,866	-	-	-	73,866
Supplies Inventory	39,848	-	-	-	39,848
Restricted Cash:					
Cash and Cash Equivalents	163,494	-	-	-	163,494
Total Assets	6,706,497	1,000,974	2,066,755	5,235,644	15,009,870
Liabilities					
Accounts Payable	123,106	174,973	-	61,057	359,136
Accrued Wages and Benefits	1,433,427	118,826	-	162,171	1,714,424
Pension Obligation Payable	489,469	-	-	-	489,469
Interfund Payable	-	544,603	-	55,076	599,679
Due to Other Funds	-	16,556	-	43,389	59,945
Intergovernmental Payable	17,849	1,541	-	1,493	20,883
Deferred Revenue	3,335,408	183,299	-	937,758	4,456,465
Total Liabilities	5,399,259	1,039,798	-	1,260,944	7,700,001
Fund Balances					
Reserved for:					
Encumbrances	62,002	16,298	494,735	38,231	611,266
Textbooks	163,494	-	-	-	163,494
Future Appropriation	1,519,728	-	-	401,950	1,921,678
Debt Service	-	-	-	307,082	307,082
Unreserved:					
Undesignated:					
General Fund	(437,986)	-	-	-	(437,986)
Special Revenue Funds	-	(55,122)	-	585,142	530,020
Capital Projects Funds	-	-	1,572,020	2,642,295	4,214,315
Total Fund Balances	1,307,238	(38,824)	2,066,755	3,974,700	7,309,869
Total Liabilities and Fund Balances	\$ 6,706,497	\$ 1,000,974	\$ 2,066,755	\$ 5,235,644	\$ 15,009,870

See accompanying notes to the basic financial statements

Conneaut Area City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005*

Total Governmental Fund Balances		\$ 7,309,869
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		41,889,705
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	670,399	
Intergovernmental	425,569	
Total		1,095,968
Long-term liabilities, including bonds, payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	6,150,895	
Asbestos Notes	8,107	
Compensated Absences	1,505,955	
Accrued Interest Payable	23,888	
Total		(7,688,845)
<i>Net Assets of Governmental Activities</i>		\$ 42,606,697

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Miscellaneous Federal Grants	Construction Project	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 4,129,403	\$ -	\$ -	\$ 1,041,140	\$ 5,170,543
Intergovernmental	11,535,493	1,658,550	3,283,000	1,994,217	18,471,260
Interest	127,994	-	77,783	-	205,777
Tuition and Fees	84,930	-	-	-	84,930
Extracurricular Activities	-	-	-	125,409	125,409
Classroom Materials and Fees	-	-	-	6,947	6,947
Miscellaneous	31,921	-	900	90,546	123,367
<i>Total Revenues</i>	<u>15,909,741</u>	<u>1,658,550</u>	<u>3,361,683</u>	<u>3,258,259</u>	<u>24,188,233</u>
Expenditures					
Current:					
Instruction:					
Regular	7,930,603	1,882,137	-	334,013	10,146,753
Special	1,395,556	-	-	703,370	2,098,926
Vocational	202,683	-	-	-	202,683
Other	406,385	-	-	119,061	525,446
Support Services:					
Pupils	830,024	47,052	-	461,952	1,339,028
Instructional Staff	966,197	681,394	-	382,866	2,030,457
Board of Education	23,860	-	-	-	23,860
Administration	1,635,684	-	-	56,454	1,692,138
Fiscal	387,703	-	-	21,117	408,820
Business	-	-	-	3,693	3,693
Operation and Maintenance of Plant	1,634,993	-	-	27,792	1,662,785
Pupil Transportation	913,612	-	-	2,468	916,080
Central	34,135	-	-	10,897	45,032
Operation of Non-Instructional Services	15,157	-	-	-	15,157
Extracurricular Activities	267,772	-	-	125,676	393,448
Capital Outlay	-	-	8,944,314	8,525	8,952,839
Debt Service:					
Principal	-	-	-	410,406	410,406
Interest	-	-	-	310,765	310,765
<i>Total Expenditures</i>	<u>16,644,364</u>	<u>2,610,583</u>	<u>8,944,314</u>	<u>2,979,055</u>	<u>31,178,316</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>(734,623)</u>	<u>(952,033)</u>	<u>(5,582,631)</u>	<u>279,204</u>	<u>(6,990,083)</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	9,778	-	-	-	9,778
Transfer In	3,525	11,920	-	17,846	33,291
Transfer Out	(27,276)	-	-	(3,525)	(30,801)
<i>Total Other Financing Sources (Uses)</i>	<u>(13,973)</u>	<u>11,920</u>	<u>-</u>	<u>14,321</u>	<u>12,268</u>
<i>Net Change in Fund Balances</i>	<u>(748,596)</u>	<u>(940,113)</u>	<u>(5,582,631)</u>	<u>293,525</u>	<u>(6,977,815)</u>
<i>Fund Balances Beginning of Year, Restated (See Note 17)</i>	<u>2,055,834</u>	<u>901,289</u>	<u>7,649,386</u>	<u>3,681,175</u>	<u>14,287,684</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,307,238</u>	<u>\$ (38,824)</u>	<u>\$ 2,066,755</u>	<u>\$ 3,974,700</u>	<u>\$ 7,309,869</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in the Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ (6,977,815)

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

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

Capital Assets Additions	8,665,812
Current Year Depreciation	(995,597)
Current Year Adjustments	<u>(50,044)</u>

Total 7,620,171

Governmental Funds only report the disposal of assets to the extent proceeds are received from that sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets. (1,084,538)

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

Taxes	254,365
Intergovernmental	<u>(2,876,680)</u>

Total (2,622,315)

Repayment of bond and note principals are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 410,406

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,946

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

Compensated Absences	(46,533)
Intergovernmental Payable	<u>(236,864)</u>

Total (283,397)

Change in Net Assets of Governmental Activities **\$ (2,935,542)**

See accompany notes to the basic financial statements

Conneaut Area City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amount</u>			Variance with Final Budget Over/ (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<i><u>Revenue:</u></i>				
Taxes	\$ 4,101,750	\$ 4,101,750	\$ 4,133,762	\$ 32,012
Intergovernmental	11,655,590	11,532,657	11,535,493	2,836
Interest	131,535	131,535	127,994	(3,541)
Tuition	91,331	91,331	84,930	(6,401)
Miscellaneous	30,165	30,824	32,354	1,530
Total Revenues	16,010,371	15,888,097	15,914,533	26,436
<i><u>Expenditures:</u></i>				
Instruction:				
Regular	8,073,733	7,989,882	7,888,789	101,093
Special	1,412,295	1,429,018	1,411,633	17,385
Vocational	261,952	244,420	229,134	15,286
Other	416,583	431,935	419,724	12,211
Support Services:				
Pupils	837,381	909,145	871,712	37,433
Instructional Support	994,933	1,053,258	987,842	65,416
Board of Education	23,660	20,482	20,223	259
Administration	1,684,159	1,725,525	1,690,658	34,867
Fiscal	301,445	390,796	381,381	9,415
Business	1,516	1,516	-	1,516
Operation and Maintenance of Plant	1,622,672	1,606,063	1,584,687	21,376
Pupil Transportation	815,450	951,704	942,275	9,429
Central	36,938	36,932	33,761	3,171
Extracurricular Activities	250,906	279,971	271,160	8,811
Total Expenditures	16,733,623	17,070,647	16,732,979	337,668
Excess of Revenues Over/ (Under) Expenditures	(723,252)	(1,182,550)	(818,446)	364,104
<i><u>Other Financing Sources/(Uses):</u></i>				
Proceeds from Sale of Fixed Assets	9,782	9,782	9,778	(4)
Refund of Prior Year Expenditures	28,514	29,551	29,551	-
Refund of Prior Year Receipts	-	(308)	(308)	-
Miscellaneous Revenues	1,961,037	963,135	963,135	-
Miscellaneous Expenditures	(2,011,681)	(1,124,191)	(1,040,950)	83,241
Advance In	104,402	104,402	104,402	-
Advance Out	-	(545,000)	(599,679)	(54,679)
Transfer In	3,525	3,525	3,525	-
Transfer Out	-	(33,640)	(27,276)	6,364
Total Other Financing Sources/(Uses)	95,579	(592,744)	(557,822)	34,922
Net Change in Fund Balance	(627,673)	(1,775,294)	(1,376,268)	399,026
Fund Balance/(Deficit) at the Beginning of Year	2,127,254	2,127,254	2,127,254	-
Prior year encumbrances appropriated	-	-	-	-
Fund Balance/(Deficit) at the End of Year	\$ 1,499,581	\$ 351,960	\$ 750,986	\$ 399,026

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
Miscellaneous Federal Grants Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amount		Actual	Variance with Final Budget Over/ (Under)
	Original	Final		
<i>Revenue:</i>				
Intergovernmental	\$ 2,509,676	\$ 2,478,371	\$ 1,641,034	\$ (837,337)
Total Revenues	2,509,676	2,478,371	1,641,034	(837,337)
<i>Expenditures:</i>				
Instruction:				
Regular	2,104,996	2,082,720	1,895,782	186,938
Support Services:				
Pupils	55,083	54,500	49,366	5,134
Instructional Support	798,126	789,680	689,018	100,662
Total Expenditures	2,958,205	2,926,900	2,634,166	292,734
Excess of Revenues Over/ (Under) Expenditures	(448,529)	(448,529)	(993,132)	(544,603)
<i>Other Financing Sources/(Uses):</i>				
Advance In	-	-	544,603	544,603
Transfer In	11,920	11,920	11,920	-
Total Other Financing Sources/(Uses)	11,920	11,920	556,523	544,603
Net Change in Fund Balance	(436,609)	(436,609)	(436,609)	-
Fund Balance/(Deficit) at the Beginning of Year	436,609	436,609	436,609	-
Fund Balance/(Deficit) at the End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Fund Assets
Proprietary Fund
June 30, 2005

	Business-Type Activities - Enterprise Fund
	Lunchroom
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 126,698
Receivables:	
Accounts	165
Intergovernmental	67,619
Inventory Held For Resale	18,780
Materials and Supplies Inventory	3,022
<i>Total Current Assets</i>	216,284
Capital Assets, Net of Accumulated Depreciation	375,609
<i>Total Assets</i>	591,893
Liabilities	
Accounts Payable	35,763
Accrued Wages	878
Due to Other Funds	13,921
Intergovernmental Payable	13
<i>Total Current Liabilities</i>	50,575
Long-Term Liabilities:	
Compensated Absences Payable	17,163
<i>Total Liabilities</i>	67,738
Net Assets	
Invested in Capital Assets, Net of Related Debt	375,609
Unrestricted	148,546
<i>Total Net Assets (Deficit)</i>	\$ 524,155

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Lunchroom
Operating Revenues:	
Food Services	\$ 284,001
<i>Total Operating Revenues</i>	<i>284,001</i>
Operating Expenses:	
Salaries	241,296
Fringe Benefits	134,115
Purchased Services	1,960
Materials and Supplies	67,022
Cost of Sales	329,236
Depreciation	24,588
Other	629
<i>Total Operating Expenses</i>	<i>798,846</i>
<i>Operating Income (Loss)</i>	<i>(514,845)</i>
Non-Operating Revenues (Expenses):	
Federal Donated Commodities	98,442
Intergovernmental	459,854
Contributed Capital	379,807
Interest	1,998
<i>Total Non-Operating Revenues</i>	<i>940,101</i>
<i>Change in Net Assets</i>	<i>425,256</i>
<i>Net Assets (Deficit) Beginning of Year, Restated (See Note 17)</i>	<i>98,899</i>
<i>Net Assets (Deficit) End of Year</i>	<i>\$ 524,155</i>

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

Business-Type Activities -
- Enterprise Fund

Lunchroom

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Customers	\$	284,368
Cash Payments to Employees for Services		(278,229)
Cash Payments for Employees Benefits		(146,047)
Cash Payments for Goods and Services		(268,986)
Other Cash Payments		(629)
		<u>(629)</u>

Net Cash Provided by (Used in) Operating Activities (409,523)

Cash Flows from Noncapital Financing Activities

Grants Received		451,127
Refund of Prior Year Expenses		234
		<u>234</u>

Net Cash Provided by (Used in) Noncapital Financing Activities 451,361

Cash Flows from Investing Activities

Interest on Investment		1,998
		<u>1,998</u>

Net Cash Provided by (Used by) Investing Activities 1,998

Net Increase (Decrease) in Cash and Cash Equivalents 43,836

Cash and Cash Equivalents Beginning of Year 82,862

Cash and Cash Equivalents End of Year \$ 126,698

Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities

Operating Income (Loss) \$ (514,845)

Adjustments:

Depreciation		24,588
Federal Donated Commodities		98,442
Refund of Prior Year Expenses		(234)
(Increase) Decrease in Assets:		
Accounts Receivable		367
Inventory Held for Resale		(3,785)
Materials and Supplies Inventory		(954)
Increase (Decrease) in Liabilities:		
Accounts Payable		35,763
Accrued Wages		(34,578)
Compensated Absences Payable		(2,025)
Intergovernmental Payable		(333)
Due to Other Funds		(11,929)
		<u>(11,929)</u>

Total Adjustments 105,322

Net Cash Provided by (Used in) Operating Activities \$ (409,523)

See accompanying notes to the basic financial statements

Conneaut Area City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2005

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 30,365
<i>Total Assets</i>	30,365
Liabilities	
Accounts Payable	386
Due to Students	29,979
<i>Total Liabilities</i>	\$ 30,365

See accompanying notes to the basic financial statements

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Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city district as defined by Section 3311 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2004, was 2,308. The District employed 208 certified employees and 110 non-certificated employees.

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

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the District is financially accountable. This report includes all activities considered by management to be part of the District by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government also may be financially accountable for governmental organizations that are fiscally dependent on it.

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

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

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

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

B. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and attaining certain objectives in accordance with special regulations, restrictions or limitations.

For financial statement presentation purposes, the various funds of the District are grouped under the broad fund categories governmental, proprietary, and fiduciary.

Conneaut Area City School District
Ashtabula County
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For the Fiscal Year Ended June 30, 2005

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

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

Miscellaneous Federal Grants Fund This fund is used to account for miscellaneous grants from the federal governments.

Project Construction Fund This fund is used to account for all transactions related to acquiring and construction the new high school building.

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

Proprietary Fund Types Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the proprietary fund types:

Enterprise Fund Enterprise fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District's enterprise fund is:

Lunchroom Fund This fund accounts for the financial transactions related to the food service operations of the District.

Fiduciary Fund Types Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trusts 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only agency fund is a student activities fund which accounts for student activities for students.

Conneaut Area City School District
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For the Fiscal Year Ended June 30, 2005

C. Basis of Presentation

Government-wide Financial Statements The statement of net assets and 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 statements distinguish between those activities of the District that are considered business type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relation between the government-wide statements and the statements to governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and 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 which identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is represented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds 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 activities.

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

Conneaut Area City School District
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Notes to the Basic Financial Statements
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D. Basic 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 fiduciary fund also use the accrual basis of accounting.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 4). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The 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.

Conneaut Area City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

E. Budget and Budgetary Accounting

All governmental and proprietary fund types are subject to annual expenditure budgets. The Board follows the procedures outlined below in establishing the expenditure budget data reported in the basic financial statements:

Tax Budget A Tax Budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by January 20th of each year, for the fiscal year commencing the following July 1st. The Board of Education normally adopts the Tax Budget at its regular board meeting in January.

Estimated Resources The County Budget Commission certifies its actions to the District by March 1st. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. During the month of July, this Certificate is amended to include any unencumbered balances from the preceding fiscal year.

Appropriations An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Board of Education usually adopts temporary appropriations at its regular board meeting in June. The Annual Appropriation Resolution is usually adopted at the September regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources and expenditures may not exceed appropriations in any fund at the object level.

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

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

F. Cash and Investments

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments." During the fiscal year all investments were limited to money market accounts, certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

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Investments are reported at cost except for investments in STAR Ohio which are reported at fair value. Fair value is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the District, all investment earnings accrue to the General and Capital Projects Funds as authorized by board resolution. Interest income earned in fiscal year 2005 totaled \$207,775; General Fund, \$127,994, Construction Project Fund, \$77,783, and Lunchroom Fund, \$1,998.

G. Taxes Receivable

The financial statements reflect taxes receivable as of June 30, 2005. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied, provided the funds are "available." "Available" means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2005 and accordingly have been recorded as deferred revenue in the fund financial statements. Taxes that become delinquent are recorded as revenue in the government-wide financial statement.

H. Inventories

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

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first out basis. Inventory of proprietary funds consist of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund type when used. Inventories of proprietary funds consist of donated food and purchased food held for resale and are expensed when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

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 Ashtabula County
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended June 30, 2005

J. Capital Assets

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 government activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The District maintains a capitalization threshold of three 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. Interest incurred during the construction of capital assets is also capitalized.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	5 – 10 years	N/A
Building and Improvements	20 – 50 years	N/A
Furniture, Fixtures, and Equipment	8 – 20 years	20 years
Vehicles	10 years	10 years

K. Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with fifteen or more years of service were included in the calculation of the long-term compensated absences accrual amount.

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Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

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

For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. In proprietary funds, compensated absences are expensed when earned with the amount reported as a fund liability.

L. Interfund Balance

On the fund financial statements, receivables and payables resulting short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

M. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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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 as reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid from them are not presented on the financial statements.

O. Fund Balance Reserves

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 appropriations or expenditures. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks, future appropriation, and debt service.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

P. Net Assets

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

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

Q. Restricted Assets

Assets are reported as restricted when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund is money required by State statute to be set-aside for the purchase of textbooks and other instructional material. See Note 15 for additional information regarding set-asides.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

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Notes to the Basic Financial Statements
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S. Estimates

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

T. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service. Operating expenses are necessary cost occurred to provide the good or service that is the primary activity of the fund.

Note 2 – Budgetary Basis of Accounting

The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the “Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget (Non-GAAP) and Actual”.

The major differences between the budgetary basis of accounting and GAAP basis are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures/expenses are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the major governmental funds.

Net Change in Fund Balance		
	General	Miscellaneous Federal Grants
Budget Basis	\$ (1,376,268)	\$ (436,609)
Net Adjustment for Revenue Accruals	(1,101,880)	(527,087)
Net Adjustment for Expenditure Accruals	1,914,441	212,711
Adjustment for Encumbrances	(184,889)	(189,128)
GAAP Basis	\$ (748,596)	\$ (940,113)

Conneaut Area City School District
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Note 3 – Cash and Investments

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

Monies held by the District which are not considered active are classified as interim. Interim monies may be deposited or invested in the following securities:

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

Conneaut Area City School District
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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value; and
9. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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.

(a) Deposit with Financial Institutions

At June 30, 2005, the carrying amount of the District's deposit was \$5,373,630. The difference in the carrying amount and the bank balance of \$5,597,425 is caused by cash in transit to bank, outstanding checks and adjustments. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$100,000 was covered by federal depository insurance and \$5,497,425 was uncollateralized (category 3).

(b) Investments

Investments are reported at fair value. As of June 30, 2005, the District had the following investments and maturities:

	Fair Value	Investment Maturity 6 Months or Less
STAR Ohio	\$ 1,614,937	\$ 1,614,937
Repurchase Agreement	159,456	159,456
Total Fair Value	\$ 1,774,393	\$ 1,774,393

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Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio to five years or less.

Credit Risk

Standard & Poor's has assigned Star Ohio a AAA money market rating.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	1,614,937	91.01%
Repurchase Agreement	<u>159,456</u>	8.99%
Total Fair Value	<u><u>\$ 1,774,393</u></u>	

(c) Reconciliation of Cash and Investments to the Statement of Activities

The following is a reconciliation of cash and investments as reported in the footnotes above to cash and investments as reported on the statement of net assets as of June 30, 2005:

Cash and Investments per Footnote	
Carrying amount of deposits	\$ 5,373,630
Investments	<u>1,774,393</u>
Total	<u><u>\$ 7,148,023</u></u>
Cash and Investments per Statements of Net Assets	
Governmental activities	\$ 6,990,960
Business-type activities	126,698
Fiduciary funds	<u>30,365</u>
Total	<u><u>\$ 7,148,023</u></u>

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
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Note 4 – Property Tax

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Ashtabula County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the District was completed in 2003 and followed by an update in 2005. The next revaluation is scheduled for 2008. 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 usually due February 14, with the remainder payable June 20. Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year.

Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually; the first payment is due April 30, with the remainder payable by September 28.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Ashtabula County Treasurer collects property tax on behalf of the District and the Ashtabula County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

The full tax rate at the fiscal year ended June 30, 2005 for operations was \$45.83 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2005 taxes were collected were as follows:

	2005	2004
Real Property-Commercial/Industrial	\$29,264,610	\$29,079,060
Real Property-Residential/Agricultural	127,986,270	126,975,780
Real Property-Public Utilities	1,107,200	1,106,100
Personal Property-General	18,376,330	19,231,520
Personal Property-Public Utilities	14,380,320	13,386,400
Total Assessed Value	\$191,114,730	\$189,778,860

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Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	Balance 7/1/2004	Addition	Deletion	Adjustments	Balance 6/30/2005
Governmental Activities					
<i>Capital Assets, not being depreciated:</i>					
Land	\$ 1,022,168	\$ -	\$ -	\$ -	\$ 1,022,168
Construction in Progress	32,659,747	8,944,314	(31,219,864)	(50,044)	10,334,153
<i>Total Capital Assets, not being depreciated:</i>	<u>33,681,915</u>	<u>8,944,314</u>	<u>(31,219,864)</u>	<u>(50,044)</u>	<u>11,356,321</u>
<i>Capital Assets, being depreciated:</i>					
Land Improvements	184,423	936,025	-	-	1,120,448
Buildings and Improvements	6,862,913	28,464,944	(2,430,392)	-	32,897,465
Furniture, Equipment and Fixtures	1,265,354	1,501,389	(1,090,694)	-	1,676,049
Vehicles	1,168,167	-	-	-	1,168,167
Textbooks	-	357,389	-	-	357,389
<i>Total Capital Assets, being depreciated:</i>	<u>9,480,857</u>	<u>31,259,747</u>	<u>(3,521,086)</u>	<u>-</u>	<u>37,219,518</u>
Less Accumulated Depreciation:					
Land Improvements	(158,751)	(48,572)	-	-	(207,323)
Building and Improvements	(4,992,218)	(666,003)	276,756	-	(5,381,465)
Furniture, Equipment, and Fixtures	(490,379)	(119,425)	302,491	-	(307,313)
Vehicles	(628,435)	(90,120)	-	-	(718,555)
Textbooks	-	(71,478)	-	-	(71,478)
<i>Total Accumulated Depreciation</i>	<u>(6,269,783)</u>	<u>(995,598)</u>	<u>579,247</u>	<u>-</u>	<u>(6,686,134)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>3,211,074</u>	<u>30,264,149</u>	<u>(2,941,839)</u>	<u>-</u>	<u>30,533,384</u>
Governmental Activities Capital Assets, Net	<u>\$ 36,892,989</u>	<u>\$ 39,208,463</u>	<u>\$ (34,161,703)</u>	<u>\$ (50,044)</u>	<u>\$ 41,889,705</u>
Business-Type Activities					
Furniture, Equipment and Fixtures	\$ 173,961	\$ 357,147	\$ (38,389)	\$ -	\$ 492,719
Vehicles	29,619	-	-	-	29,619
Less Accumulated Depreciation	<u>(148,023)</u>	<u>(24,588)</u>	<u>25,882</u>	<u>-</u>	<u>(146,729)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 55,557</u>	<u>\$ 332,559</u>	<u>\$ (12,507)</u>	<u>\$ -</u>	<u>\$ 375,609</u>

Conneaut Area City School District
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For the Fiscal Year Ended June 30, 2005

In fiscal year 2005, the District performed an update of capital assets and discovered an overstatement of the prior year capital asset balances. The update decreased \$2,382,692 of the beginning governmental activities net capital assets, and \$62,416 of the beginning business-type activities net capital assets.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 822,137
Support Services:	
Pupil	371
Instructional Staff	85,134
Administration	4,473
Operation and Maintenance of Plant	64,616
Pupil Transportation	1,205
Operation of Non-instructional Services	15,373
Extracurricular Activities	2,289
Total Depreciation Expense	\$ 995,598

Note 6 – Receivables

Receivables at June 30, 2005 consisted of taxes, accounts (miscellaneous), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

Other Governmental Funds:	
Other Grants	\$17
Ohio Read Grants	32,678
Summer School Subsidy	46,066
Title VI	120,016
Title I	244,137
Title VI	6,145
Title VI-R	71,173
Drug Free School Grant	12,855
Preschool Grant	5,517
Miscellaneous Federal Grants	811,846
Total Other Governmental Funds	\$1,350,450
Proprietary Fund:	
Lunchroom	\$67,619

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 7 – Interfund Transactions

A. Interfund Receivable/Payable

The interfund receivable/payable consisted of the following fund at June 30, 2005, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
Major Governmental Fund:		
General	\$599,679	\$0
Non-major Governmental Funds:		
Local Grants	0	496
Athletic and Music	0	13,931
Ohio Reads Grant	0	3,673
Title VI-B	0	10,719
Title I	0	11,023
Title VI	0	200
Drug Free School Grants	0	10,503
Preschool Grant	0	3,663
Title VI-R	0	868
Miscellaneous Federal Grants	0	544,603
Total	\$599,679	\$559,679

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

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Major Governmental Fund:		
General	\$3,525	\$27,276
Non-major Governmental Funds:		
Special Trust	0	3,525
Uniform School Supplies	13,827	0
Public School Support	2,490	0
Athletic and Music	1,529	0
Miscellaneous Federal Grants	11,920	0
Fiduciary Fund:		
Student Activities	0	2,490
Total	\$33,291	\$33,291

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Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorization. Transfers are also used to close out grants in any funds, including special revenue funds, that are no longer required.

C. Due from Other Funds/Due to Other Funds

Due from other funds/due to other funds for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	Due from Other Funds	Due to Other Funds
Major Governmental Fund:		
General	\$73,866	\$0
Miscellaneous Federal Grants	0	16,556
Non-major Governmental Funds:		
DPIA	0	8,562
Ohio Reads	0	3,658
Title VI-B	0	9,345
Title I	0	13,297
Title V	0	663
Title II-A	0	3,729
Reading Intervention	0	4,135
Proprietary Fund:		
Lunchroom	0	13,921
Total	\$73,866	\$73,866

The primary purpose of the due from/due to is to account for the estimated workers' compensation premiums and pension obligations that are collected by the general fund before the actual amounts are due.

Note 8 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Conneaut Area City School District
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For the Fiscal Year Ended June 30, 2005

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$372,516, \$345,048, and \$319,848, respectively; 35.11 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$241,709 representing the unpaid contribution for fiscal year 2005, including the surcharge, is recorded as a liability.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefits (DB) plan, a Defined Contribution (SC) 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 allowance based on member contributions and earned interest matched by STRS Ohio funds time an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined plan offers features of both the DB plan and DC 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 Combine plan members will transfer to the DB 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 balance 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.

Conneaut Area City School District
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For the Fiscal Year Ended June 30, 2005

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salaries. The District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,499,232, \$1,386,564, and \$1,179,348, respectively; 81.7 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$247,760 representing the unpaid contribution for fiscal year 2005 is recorded as a liability. Contributions to the DC and Combined Plans for the fiscal year 2005 were \$2,617 made by the District and \$26,229 made by the plan members.

Note 9 – Postemployment Benefits

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

All STRS 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 cost 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, 2005, 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 \$107,088 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 and STRS had 118,853 eligible benefit recipients.

Conneaut Area City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

For SERS, coverage is made available to service retirees with then or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. For the District, the amount to fund health care benefits, including the surcharge, equaled \$139,214 during the 2005 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide health care reserve equal to at least 150 percent of the estimated annual net claims costs. The number of participants eligible to receive benefits is 58,123.

Note 10 – Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (11 and 12 month) are eligible for vacation time. The Superintendent and Treasurer are granted twenty days of vacation per year.

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Any vacation time which is unused as of the employee's anniversary date is expired and not available for use in a subsequent year unless approved by the Superintendent. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1-8	10
9-13	15
14-beyond	20

Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Conneaut Area City School District
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For the Fiscal Year Ended June 30, 2005

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for certified employees is 315 days, and classified employees is 300 days.

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 57 days for certified employees and 55 days for classified employees.

Note 11 – Risk Management

A. General Risk

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate.

Umbrella liability insurance is maintained in the amount of \$5,000,000 for each occurrence and \$5,000,000 in the aggregate.

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

The District maintains replacement cost insurance on buildings at \$40,025,623.

Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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.

Conneaut Area City School District
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For the Fiscal Year Ended June 30, 2005

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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

In July 1987, the District joined the Ashtabula County Schools Council of Governments Employees Insurance Consortium to form a council of governments to insure its medical claims. The consortium currently includes seven member school districts. The insurance plan operates as a full indemnity program.

Note 12 – Notes and Long-Term Debt

The changes in the District's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds Payable	\$ 6,555,895	\$ -	\$ (405,000)	\$ 6,150,895	\$ 415,000
Asbestos Notes Payable	13,513	-	(5,406)	8,107	5,406
Compensated Absences Payable	1,459,422	1,505,955	(1,459,422)	1,505,955	220,481
Total Governmental Activities Long-Term Liabilities	<u>\$ 8,028,830</u>	<u>\$ 1,505,955</u>	<u>\$ (1,869,828)</u>	<u>\$ 7,664,957</u>	<u>\$ 640,887</u>
Business-Type Activities					
Compensated Absences Payable	<u>\$ 19,188</u>	<u>\$ 17,163</u>	<u>\$ (19,188)</u>	<u>\$ 17,163</u>	<u>\$ 2,369</u>

General Obligation Bonds In 1986, bonds were issued for the purpose of constructing and equipping a new high school building and improving the site thereof. The original issue was \$3,793,000 with a 7.35 percent interest rate. These bonds mature in December, 2006, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof.

The annual maturities of the general obligation bonds as of June 30, 2005, and related interest payments are as follows:

	Principal	Interest	Payment
FY2006	190,000	21,018	211,018
FY2007	190,000	7,006	197,006
	<u>\$ 380,000</u>	<u>\$28,024</u>	<u>\$408,024</u>

Conneaut Area City School District
 Ashtabula County
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended June 30, 2005

Classroom Facilities Improvement Bonds In 2002 bonds were issued in the amount of \$6,590,895 for the purpose of constructing, renovating and equipping District facilities. The bonds will be repaid over 23 years at an interest rate of 5.125 percent. These bonds mature in December, 2023, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof.

The annual maturities of the general obligation bonds as of June 30, 2005, and related interest payments are as follows:

	Principal	Interest	Payment
FY2006	225,000	265,631	490,631
FY2007	230,000	255,905	485,905
FY2008	240,000	245,740	485,740
FY2009	255,000	234,910	489,910
FY2010	100,631	393,669	494,300
FY2011 & Thereafter	\$4,720,264	2,076,995	6,797,259
	\$5,770,895	\$3,472,850	\$9,243,745

Asbestos Notes Payable Under the Asbestos Schools Hazard Abatement Act of 1984, the District received a loan of \$97,306 to assist in an asbestos removal project. The repayment schedule for the loan portion is \$5,406 annually, with the first payment made in June 1989 and the final amount due December 2006.

The annual maturities of the asbestos notes as of June 30, 2005, as follows:

	Payment
FY2006	5,406
FY2007	2,701
	\$ 8,107

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0 percent of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .01 percent of the total assessed value of property. The District has no unvoted debt, the District's unvoted debt limit is \$191,115. The voted debt limit at June 30, 2005 is \$16,893,244.

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 13 – Jointly Governed Organizations

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

Ashtabula County Joint Vocational School District The District is a member of the Ashtabula County Joint Vocational School District. The Ashtabula County Joint Vocational School District has a nine-member board of education and is funding by levying millage and state and federal support.

The District has no ongoing financial interest of financial responsibility to the Ashtabula County Joint Vocational School District.

Northeast Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based on a per pupil charge. Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers. The District was represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 6000 Youngstown-Warren Rd, Niles, Ohio 44446.

Northeast Ohio Special Education Regional Resource Center (NEO/SERRC) NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate each year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 100 DeBartolo Place, Youngstown, Ohio 44512.

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 14 – Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

The District is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2005.

Note 15. Statutory Reserves

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Total
Set-Aside Cash Balance, 7/1/04	\$ 84,788	\$ -	\$ 84,788
Current Year Required Set-Aside	349,002	349,002	698,004
Current Year Offset Credits	-	(222,767)	(222,767)
Qualifying Disbursements	(270,296)	(236,603)	(506,899)
Total	\$ 163,494	\$ (110,368)	\$ 53,126
Cash Balance Carried Forward to FY 2006	\$ 163,494	\$ -	\$ 163,494

A schedule of the restricted assets at June 30, 2005, follows:

Amount Restricted for Textbooks	\$163,494
Total Restricted Assets	\$163,464

Conneaut Area City School District
Ashtabula County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 16 – Accountability and Compliance

A. Fund Deficits

Fund balances at June 30, 2005 include the following individual fund deficit:

<u>Funds</u>	<u>Deficit Fund Balance</u>
Nonmajor Special Revenue Funds	
Title VI-B	\$2,816
Title I	15,115
Miscellaneous Federal Grants	38,824

The fund deficit in all funds is the result of the recognition of liabilities in accordance with general accepted accounting principles. Management is analyzing the operations of these funds to determine appropriate steps to eliminate the deficits.

Note 17 – Restatement of Fund Balances and Net Assets

A. Fund Balances

In fiscal year 2005, the District has implemented GASB No. 40, “Deposits and Investment Risk Disclosure”; GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers” and GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits and Other Than Pensions.” The implementation of GASB Technical Bulletin No. 2004-2 had reduced the beginning general fund balance by \$102,263 to \$2,055,834; and the beginning other governmental fund balances by \$8,706 to \$3,681,175.

B. Net Assets

In fiscal year 2005, the District restated its beginning capital asset balances for governmental and business-type activities. As a result, the net assets of governmental activities reduced to \$45,542,239 and the net assets of business-type activity stated at \$98,899.

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through The Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$98,442		\$98,442
School Breakfast Program	05-PU-04 05-PU-05	10.553	\$18,788 59,020	- -	\$18,788 59,020	- -
Subtotal -- School Breakfast Program			77,808	-	77,808	-
National School Lunch Program	LL-P4-04 LL-P4-05	10.555	89,623 266,653	- -	89,623 266,653	- -
Subtotal -- School National School Lunch Program			356,276	-	356,276	-
Total U.S. Department of Agriculture Nutrition Cluster			434,084	98,442	434,084	98,442
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies Schoolwide - Title I School Subsidy	C1-S1 04 C1-S1 05	84.010	(39,285) 607,639	- -	\$105,540 609,678	- -
Total Title I School Subsidy			568,354	-	715,218	-
Special Education Cluster:						
Special Education Grants to States IDEA, Part B	6B-SF 04 P 6B-SF 05 P	84.027	50,009 442,199	- -	47,563 443,967	- -
Subtotal IDEA, Part B			492,208	-	491,530	-
Early Childhood Special Education, IDEA	PG-S1 04 P PG-S1 05 P	84.173	(779) 23,729	- -	820 23,590	- -
Child Progress Indicator	PG-D7 04 P		-	-	5,400	-
Subtotal Early Childhood Spec Education, IDEA			22,950	-	29,810	-
Total Special Education Cluster			515,158	-	521,340	-
Safe and Drug Free Schools and Communities State Grant	DR-S1 04 DR-S1 05	84.186	(\$6,137) 12,704	- -	9,721 12,703	- -
Total Safe and Drug Free Schools Subsidy			6,567	-	22,424	-
Innovative Programs, Title V	C2-S1 04 C2-S1 05	84.298	(118) 5,153	- -	440 5,153	- -
Total Innovative Programs			5,035	-	5,593	-
Technology, Title II-D	TJ-S1 04 TJ-S1 05	84.318	(1,222) 21,884	- -	329 38,587	- -
Total Technology, Title II-D			20,662	-	38,916	-
Comprehensive School Reform Demonstration	RF-CC-05	84.332	15,422	-	15,422	-
Reading First	RS-S1-04 RS-S1-05	84.357	(11,950) 1,608,124	- -	427,660 1,949,580	- -
Total Reading First			1,596,174	-	2,377,240	-
Title II-A, State Grants for Improving Teacher Quality	TR-S1-04 TR-S1-05	84.367	(19,873) 149,044	- -	25,726 149,648	- -
Total Title II-A, State Grants for Improving Teacher Quality			129,171	-	175,374	-
Total U.S. Department of Education			2,856,543	-	3,871,527	-
U.S. OFFICE OF LIBRARY SERVICES						
<i>Passed Through The Ohio Library Board:</i>						
Library Services and Technology Act	VI-2-05	45.310	23,674	-	28,882	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through The Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Cluster- CAFS	N/A	93.778	153,034	-	153,034	-
Totals			\$3,467,335	\$98,442	\$4,487,527	\$98,442

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

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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.

NOTE C – MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

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

To The Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2006 wherein we noted the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Conneaut Area City School District's internal control over financial reporting in order to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Conneaut Area City School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Conneaut Area City School District

Ashtabula County

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*

Page 2

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

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

Betty Montgomery

Auditor of State

December 5, 2006



Auditor of State Betty Montgomery

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

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

To The Board of Education:

Compliance

We have audited the compliance of Conneaut Area City School District, Ashtabula County, (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, 2005. Conneaut Area City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal programs. Our responsibility is to express an opinion on Conneaut Area City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about Conneaut Area City School District's compliance with those requirements and performing other procedures 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 Conneaut Area City School District's compliance with those requirements.

In our opinion, Conneaut Area City School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The Conneaut Area City School District's management 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 Conneaut Area City School District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

Conneaut Area City School District

Ashtabula County

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

Page 2

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery

Auditor of State

December 5, 2006

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(i)	Type of Financial Statement opinion	Unqualified
(d)(1)(ii)	Were 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)	Were 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 I; CFDA: 84.010 Reading First; CFDA 84.357
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2005**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>
2004-001	Reading First Grant Cash Management	Fully Corrected



**Auditor of State
Betty Montgomery**

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800-282-0370

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**CONNEAUT AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 26, 2006**