



Mary Taylor, CPA  
Auditor of State



**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To The Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor CPA**  
Auditor of State

September 11, 2007

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

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

**Financial Highlights**

Key Financial Highlights for fiscal year 2006 are as follows:

- Total net assets of governmental activities decreased \$1,243,620 which represents a 2.79 percent decrease from fiscal year 2005.
- Total revenues of \$21,883,519 were comprised of general revenues in the amount of \$17,568,337 or 80.28 percent and program specific revenues from charges for services, grants and contributions in the amount of \$4,315,182 or 19.72 percent.
- Total assets of governmental activities decreased by \$2,304,346 which includes decreases to cash and cash equivalents and intergovernmental receivables offset with capital asset increases of \$1,928,221.
- The School District had \$23,127,139 in expenses related to governmental activities; only \$4,315,182 of these expenses were offset by program specific charges for services, sales, grants or contributions. General revenues (primarily taxes and school foundation) of \$17,568,337 helped to provide for these programs.
- The general fund balance was \$1,555,162 at fiscal year end, down from \$2,278,748 at June 30, 2005.

**Using this Annual Financial Report**

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

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

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

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

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

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

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

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

*Fund Financial Statements*

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

*Governmental Funds*

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

**The School District as a Whole**

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's Net Assets for 2006 compared to 2005:

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

(Table 1)  
 Net Assets  
 Governmental Activities

	2006	2005	Change
<b>Assets</b>			
Current and Other Assets	\$11,791,054	\$16,023,621	(\$4,232,567)
Capital Assets	44,193,535	42,265,314	1,928,221
<i>Total Assets</i>	<u>55,984,589</u>	<u>58,288,935</u>	<u>(2,304,346)</u>
<b>Liabilities</b>			
Current Liabilities	5,375,906	5,883,137	(507,231)
Long-Term Liabilities			
Due within One Year	627,202	643,256	(16,054)
Due in More than One Year	6,626,084	7,163,525	(537,441)
<i>Total Liabilities</i>	<u>12,629,192</u>	<u>13,689,918</u>	<u>(1,060,726)</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	38,457,640	36,114,419	2,343,221
Restricted for:			
Capital Projects	2,339,881	5,155,994	(2,816,113)
Debt Service	1,136,543	934,952	201,591
Set Asides	373,839	163,494	210,345
Other Purposes	788,450	1,040,171	(251,721)
Unrestricted (Deficit)	259,044	1,189,987	(930,943)
<i>Total Net Assets</i>	<u>\$43,355,397</u>	<u>\$44,599,017</u>	<u>(\$1,243,620)</u>

Current assets decreased \$4,232,567. This decrease was offset by an increase in capital assets of \$1,928,221 for a total decrease in assets of \$2,304,346. This was due to the School District completing the Ohio School Facilities Commissions (OSFC) project. The School District expended the remaining cash to complete the Lakeshore Primary School. Total cash of the School District also decreased due to expenses exceeding revenues during fiscal year 2006.

Total liabilities decreased \$1,060,726 or 7.75 percent due to the decrease in accrued wages and debt principal payments. The School District experienced a higher number of retirees at the end of fiscal year 2006. These retirees are completely paid by the end of the fiscal year thereby reducing the accrued wages. Long-term liabilities decreased due to the School District making the annual debt service payments.

Unrestricted net assets decreased \$930,943 due to greater set aside reserves required and from a decrease in general fund cash and cash equivalents in fiscal year 2006. Net assets restricted for other purposes decreased \$251,721 due to a decrease in grant monies received. Net assets restricted for capital projects decreased \$2,816,113 due to a decrease in classroom facilities grant monies received. By comparing assets and liabilities, one can see the overall position of the School District has worsened as evidenced by the decrease in net assets of \$1,243,620. This development is due to the School District receiving less in the way of grants.

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

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

(Table 2)  
Change in Net Assets  
Governmental Activities

	2006	2005	Change
<b>Revenues</b>			
<b>Program Revenues</b>			
Charges for Services and Sales	\$593,205	\$501,287	\$91,918
Operating Grants and Contributions	3,656,762	4,497,180	(840,418)
Capital Grants and Contributions	65,215	379,807	(314,592)
<i>Total Program Revenues</i>	<u>4,315,182</u>	<u>5,378,274</u>	<u>(1,063,092)</u>
<b>General Revenues</b>			
Property and Other Local Taxes	5,530,149	5,424,908	105,241
Grants and Entitlements not Restricted	11,657,220	13,549,690	(1,892,470)
Investment Earnings	286,361	207,775	78,586
Miscellaneous	94,607	125,857	(31,250)
<i>Total General Revenues</i>	<u>17,568,337</u>	<u>19,308,230</u>	<u>(1,739,893)</u>
<i>Total Revenues</i>	<u>21,883,519</u>	<u>24,686,504</u>	<u>(2,802,985)</u>
<b>Program Expenses</b>			
Current:			
Instruction:			
Regular	10,054,711	12,035,914	(1,981,203)
Special	2,821,279	3,175,592	(354,313)
Vocational	165,078	202,384	(37,306)
Support Services:			
Pupils	1,231,546	1,321,178	(89,632)
Instructional Staff	1,718,033	2,118,336	(400,303)
Board of Education	36,098	23,707	12,391
Administration	1,890,394	1,716,867	173,527
Fiscal	456,039	401,531	54,508
Business	0	3,693	(3,693)
Operation and Maintenance of Plant	2,038,690	1,756,426	282,264
Pupil Transportation	929,391	925,603	3,788
Central	51,639	60,405	(8,766)
Extracurricular Activities	476,337	395,223	81,114
Operation of Non-Instructional Services:			
Food Service Operations	890,877	798,846	92,031
Other Non-Instructional Services	45,097	0	45,097
Interest and Fiscal Charges	321,930	433,480	(111,550)
<i>Total Program Expenses</i>	<u>23,127,139</u>	<u>25,369,185</u>	<u>(2,242,046)</u>
<i>Decrease in Net Assets</i>	(1,243,620)	(682,681)	(560,939)
Net Assets Beginning of Year	44,599,017	45,281,698	(682,681)
<i>Net Assets End of Year</i>	<u>\$43,355,397</u>	<u>\$44,599,017</u>	<u>(\$1,243,620)</u>

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

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***Governmental Activities***

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

Thus school districts dependence upon property taxes is hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 25.27 percent of revenues for governmental activities for Conneaut Area City School District in fiscal year 2006 versus 21.98 percent in fiscal year 2005. This increase was due to some new construction coming on to the tax duplicate and the elimination of the 10 percent rollback for businesses that was effective in January 2006. The School District has not gone to the community for an operating levy since 1991. The School District has prudently managed expenses within revenues over the prior fifteen years. The School District placed an emergency levy on the November ballot. Due to the defeat of emergency levy in November 2006, the School District has made budget and personnel reductions totaling \$1.2 million in fiscal year 2007. The School District has carefully planned its financial existence by forecasting its revenue and expenses over the next five years.

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

Grants and entitlements not restricted for a specific program decreased \$1,892,470. This revenue is made up of homestead and rollback, the personal property tax exemption, Ohio School Facilities monies as well as the School Foundation revenues. The School District has experienced a decline in enrollment which in turn decreases the amount of foundation revenues received. Due to the declining enrollment, the School District now qualifies for three guarantees offered by the School Foundation program in order to keep the revenues consistent with the prior year. The School District relies heavily upon this revenue to support operations of the School District. The School District also finished collecting Ohio School Facilities money in fiscal year 2005 which makes up most of the decrease.

As one can see, approximately 56.39 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, staff, and plant and business operations encompass an additional 36.11 percent. The remaining amount of program expenses, roughly 7.50 percent, is budgeted to facilitate non-instructional services of the School District, interest payments on debt and numerous extracurricular activities. All instructional expenses decreased due to the School District receiving less grant monies in fiscal year 2006 and from teachers who were not replaced upon leaving.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2006 compared to 2005.

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

(Table 3)

	Governmental Activities			
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
	Instruction	\$13,041,068	\$10,947,983	\$15,413,890
Support Services:				
Pupils and Instructional Staff	2,949,579	2,000,438	3,439,514	2,568,620
Board of Education, Administration, Fiscal and Business	2,382,531	2,286,207	2,145,798	2,094,886
Operation and Maintenance of Plant	2,038,690	2,013,908	1,756,426	1,756,995
Pupil Transportation	929,391	907,824	925,603	925,347
Central	51,639	(7,877)	60,405	42,670
Extracurricular Activities	476,337	264,368	395,223	282,390
Operation of Non- Instructional Services:				
Food Service Operations	890,877	79,172	798,846	423,258
Other Non-Instructional Services	45,097	(1,996)	0	0
Interest and Fiscal Charges	321,930	321,930	433,480	308,819
<i>Total Expenses</i>	<u>\$23,127,139</u>	<u>\$18,811,957</u>	<u>\$25,369,185</u>	<u>\$20,771,038</u>

The dependence upon general revenues for governmental activities is apparent as local property tax accounts for roughly 25.27 percent and grants and entitlements account for 53.27 percent of the total revenues in fiscal year 2006. This amount is approximately the same as in 2005. 83.95 percent of instructional activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 77.97 percent of total governmental revenues.

**The School District's Funds**

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24,178,620 and expenditures of \$25,593,671. The net change in the general fund was a decrease of \$723,316 due to expenditures exceeding revenues. The net change in fund balance for the fiscal year was most significant in the Classroom Facilities Maintenance capital projects Fund with a decrease of \$1,109,218 due to the School District completing the Lakeshore Primary School as the final phase of the OSFC project. The change in other governmental funds increased \$35,124 due to the School District prudently managing grant monies.

**General Fund Budgeting Highlights**

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

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

During the course of fiscal 2006, the School District amended its general fund budget numerous times, none significant. Many of the amendments are due to changes in expenditure priorities at the building levels. For the general fund, the final budget basis revenue estimate was \$16,313,261 representing a 3.60 increase from the original budget estimates of \$15,745,915. Most of this difference was due to conservative tax estimates in the area of real estate, tangible personal property and foundation revenues.

Actual budget basis expenditures totaled \$17,159,909 compared to the final estimate of \$17,252,908. This difference is due to the School District prudently managing expenditures.

The School District's general fund balance at the end of the fiscal year was \$1,781,679.

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

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2006 the School District had \$44,193,535 invested in governmental activities capital assets. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

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

	2006	2005
Land	\$1,022,168	\$1,022,168
Construction in Progress	0	10,334,153
Land Improvements	1,319,478	913,125
Buildings and Improvements	39,309,384	27,516,000
Furniture and Fixtures	1,807,028	1,723,046
Vehicles	417,303	470,911
Textbooks	318,174	285,911
Total	\$44,193,535	\$42,265,314

For fiscal year 2006, capital assets increased \$1,928,221. The School District completed the final phase of the OSFC project by completing Lakeshore Primary School. The School District also purchased some textbooks and computers. These increases were offset by the annual depreciation. Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2006, this amounted to \$362,704 for each set aside. See Note 9 to the basic financial statements for additional information on the School District's capital assets and Note 19 for additional information regarding required set-asides.

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

**Debt**

At June 30, 2006, the School District had \$7,253,286 in long-term liabilities outstanding. Table 5 summarizes the long-term liabilities outstanding:

(Table 5)  
 Outstanding Long-Term Obligations

	Governmental Activities	
	2006	2005
2001 Classroom Facilities Improvement Bonds - 4.10 - 5.10%		
Current Interest Serial Bonds	\$4,205,000	\$4,620,000
Capital Appreciation Bonds	190,895	190,895
Accretion on Capital Appreciation Bonds	160,791	124,661
Current Issue Term Bonds	1,340,000	1,340,000
<i>Total General Obligation Bonds</i>	5,896,686	6,275,556
Asbestos Abatement Loan	2,701	8,107
Compensated Absences	1,353,899	1,505,955
<i>Totals</i>	\$7,253,286	\$7,789,618

The Classroom Facilities Improvement general obligation bonds were issued for the School District portion of the OSFC project. These bonds will be fully repaid in calendar year 2023. The Asbestos loan was issued to remove asbestos from the school buildings. This loan will be fully repaid in fiscal year 2007.

The School District's overall legal debt margin was \$11,323,904 with an unvoted debt margin of \$181,115. See Note 15 detailed long term debt information.

**Challenges and Opportunities**

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

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

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

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

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

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

**Conneaut Area City School District**

*Statement of Net Assets*

*June 30, 2006*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$5,714,463
Accounts Receivable	24,773
Intergovernmental Receivable	456,666
Inventory Held for Resale	13,756
Materials and Supplies Inventory	38,687
Taxes Receivable	5,542,709
Nondepreciable Capital Assets	1,022,168
Depreciable Capital Assets, Net	<u>43,171,367</u>
<i>Total Assets</i>	<u>55,984,589</u>
<b>Liabilities</b>	
Accounts Payable	282,187
Accrued Wages	1,482,862
Intergovernmental Payable	553,988
Matured Compensated Absences Payable	87,322
Accrued Interest Payable	21,909
Deferred Revenue	2,947,638
Long-Term Liabilities:	
Due Within One Year	627,202
Due in More Than One Year	<u>6,626,084</u>
<i>Total Liabilities</i>	<u>12,629,192</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	38,457,640
Restricted for:	
Capital Projects	2,339,881
Debt Service	1,136,543
Set Asides	373,839
Other Purposes	788,450
Unrestricted	<u>259,044</u>
<i>Total Net Assets</i>	<u><u>\$43,355,397</u></u>

See accompanying notes to the basic financial statements

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

	Program Revenues				Net Revenue/(Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions	Capital Grants	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$10,054,711	\$79,933	\$1,102,051	\$0	(\$8,872,727)
Special	2,821,279	14,590	895,248	0	(1,911,441)
Vocational	165,078	1,263	0	0	(163,815)
Support Services:					
Pupils	1,231,546	5,696	445,299	0	(780,551)
Instructional Staff	1,718,033	8,408	489,738	0	(1,219,887)
Board of Education	36,098	276	0	0	(35,822)
Administration	1,890,394	13,686	78,870	0	(1,797,838)
Fiscal	456,039	3,353	139	0	(452,547)
Operation and Maintenance					
of Plant	2,038,690	15,459	9,323	0	(2,013,908)
Pupil Transportation	929,391	7,084	31	14,452	(907,824)
Central	51,639	214	8,539	50,763	7,877
Extracurricular Activities	476,337	162,250	49,719	0	(264,368)
Operation of Non-Instructional Services:					
Food Service Operations	890,877	280,993	530,712	0	(79,172)
Other Non-Instructional Services	45,097	0	47,093	0	1,996
Interest and Fiscal Charges	321,930	0	0	0	(321,930)
<i>Totals</i>	<u>\$23,127,139</u>	<u>\$593,205</u>	<u>\$3,656,762</u>	<u>\$65,215</u>	<u>(18,811,957)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	4,403,686
Debt Service	826,552
Capital Outlay	224,933
Other Purposes	74,978

Grants and Entitlements not Restricted

to Specific Programs	11,657,220
Investment Earnings	286,361
Miscellaneous	94,607

*Total General Revenues* 17,568,337

Change in Net Assets (1,243,620)

*Net Assets Beginning of Year - Restated (See Note 3)* 44,599,017

*Net Assets End of Year* \$43,355,397

See accompanying notes to the basic financial statements

**Conneaut Area City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

	General	Bond Retirement	Permanent Improvement	Classroom Facilities Maintenance	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$1,448,354	\$759,849	\$1,324,061	\$957,538	\$836,370	\$5,326,172
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	388,291	0	0	0	0	388,291
Receivables:						
Taxes	4,491,430	743,135	231,108	0	77,036	5,542,709
Accounts	14,889	0	0	0	9,884	24,773
Intergovernmental	0	0	0	0	456,666	456,666
Interfund Receivable	49,316	0	0	0	0	49,316
Inventory Held for Resale	0	0	0	0	13,756	13,756
Materials and Supplies Inventory	35,839	0	0	0	2,848	38,687
<i>Total Assets</i>	<u>\$6,428,119</u>	<u>\$1,502,984</u>	<u>\$1,555,169</u>	<u>\$957,538</u>	<u>\$1,396,560</u>	<u>\$11,840,370</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$153,906	\$376	\$50,206	\$0	\$77,699	\$282,187
Accrued Wages	1,254,818	0	0	0	228,044	1,482,862
Intergovernmental Payable	471,748	0	0	0	82,240	553,988
Interfund Payable	0	0	0	0	49,316	49,316
Deferred Revenue	2,905,163	425,240	145,758	0	166,338	3,642,499
Matured Compensated Absences Payable	87,322	0	0	0	0	87,322
<i>Total Liabilities</i>	<u>4,872,957</u>	<u>425,616</u>	<u>195,964</u>	<u>0</u>	<u>603,637</u>	<u>6,098,174</u>
<b>Fund Balances:</b>						
Reserved for Encumbrances	10,761	0	0	0	26,566	37,327
Reserved for Property Taxes	1,586,267	317,895	85,350	0	28,450	2,017,962
Reserved for Unclaimed Monies	2,728	0	0	0	0	2,728
Reserved for Textbooks	373,839	0	0	0	0	373,839
Reserved for Bus Purchase	14,452	0	0	0	0	14,452
Unreserved, Undesignated, Reported in:						
General Fund (Deficit)	(432,885)	0	0	0	0	(432,885)
Special Revenue Funds	0	0	0	0	737,722	737,722
Debt Service Fund	0	759,473	0	0	0	759,473
Capital Projects Funds	0	0	1,273,855	957,538	185	2,231,578
<i>Total Fund Balances</i>	<u>1,555,162</u>	<u>1,077,368</u>	<u>1,359,205</u>	<u>957,538</u>	<u>792,923</u>	<u>5,742,196</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,428,119</u>	<u>\$1,502,984</u>	<u>\$1,555,169</u>	<u>\$957,538</u>	<u>\$1,396,560</u>	<u>\$11,840,370</u>

See accompanying notes to the basic financial statement

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

<b>Total Governmental Funds Balances</b>	\$5,742,196
 <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.	44,193,535
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	577,109
Grants	<u>117,752</u>
Total	694,861
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.	(21,909)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(5,896,686)
Asbestos Abatement Loan	(2,701)
Compensated Absences	<u>(1,353,899)</u>
Total	<u>(7,253,286)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$43,355,397</u></u>

See accompanying notes to the basic financial statements

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

	General	Bond Retirement	Permanent Improvement	Classroom Facilities Maintenance	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$4,489,242	\$829,858	\$228,254	\$0	\$76,085	\$5,623,439
Intergovernmental	11,579,462	92,210	24,779	1,911,782	3,915,970	17,524,203
Interest	154,174	0	0	128,815	3,372	286,361
Charges for Services	0	0	0	0	339,552	339,552
Tuition and Fees	126,125	0	0	0	5,350	131,475
Extracurricular Activities	0	0	0	0	119,333	119,333
Rentals	2,845	0	0	0	0	2,845
Contributions and Donations	1,200	0	0	0	55,605	56,805
Miscellaneous	37,159	0	12,937	32,929	11,582	94,607
<i>Total Revenues</i>	<u>16,390,207</u>	<u>922,068</u>	<u>265,970</u>	<u>2,073,526</u>	<u>4,526,849</u>	<u>24,178,620</u>
<b>Expenditures</b>						
Current:						
Instruction:						
Regular	7,813,877	0	0	0	1,272,982	9,086,859
Special	1,924,926	0	0	0	869,209	2,794,135
Vocational	164,637	0	0	0	0	164,637
Support Services:						
Pupils	773,984	0	0	0	467,180	1,241,164
Instructional Staff	1,114,272	0	0	0	545,560	1,659,832
Board of Education	36,098	0	0	0	0	36,098
Administration	1,786,699	0	0	0	97,014	1,883,713
Fiscal	435,830	16,370	0	0	1,583	453,783
Operation and Maintenance of Plant	1,859,700	0	0	0	94,825	1,954,525
Pupil Transportation	930,450	0	0	0	2,362	932,812
Central	28,021	0	0	0	6,867	34,888
Extracurricular Activities	266,215	0	0	0	204,437	470,652
Operation of Non-Instructional Services:						
Food Service Operations	0	0	0	0	837,894	837,894
Other Non-Instructional Services	0	0	0	0	45,097	45,097
Capital Outlay	0	0	80,854	3,182,744	25,799	3,289,397
Debt Service:						
Principal Retirement	0	420,406	0	0	0	420,406
Interest and Fiscal Charges	0	287,779	0	0	0	287,779
<i>Total Expenditures</i>	<u>17,134,709</u>	<u>724,555</u>	<u>80,854</u>	<u>3,182,744</u>	<u>4,470,809</u>	<u>25,593,671</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(744,502)</u>	<u>197,513</u>	<u>185,116</u>	<u>(1,109,218)</u>	<u>56,040</u>	<u>(1,415,051)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	40,916	0	0	0	20,000	60,916
Transfers Out	(20,000)	0	0	0	(40,916)	(60,916)
<i>Total Other Financing Sources (Uses)</i>	<u>20,916</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(20,916)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(723,586)</u>	<u>197,513</u>	<u>185,116</u>	<u>(1,109,218)</u>	<u>35,124</u>	<u>(1,415,051)</u>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>2,278,748</u>	<u>879,855</u>	<u>1,174,089</u>	<u>2,066,756</u>	<u>757,799</u>	<u>7,157,247</u>
<i>Fund Balances End of Year</i>	<u>\$1,555,162</u>	<u>\$1,077,368</u>	<u>\$1,359,205</u>	<u>\$957,538</u>	<u>\$792,923</u>	<u>\$5,742,196</u>

See accompanying notes to the basic financial statements

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

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**Net Change in Fund Balances -Total Governmental Funds** (\$1,415,051)

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

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

Capital Asset Additions	3,354,408	
Current Year Depreciation	(1,426,187)	
Total		1,928,221

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

Property Taxes	(93,290)	
Grants	(2,201,811)	
Total		(2,295,101)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 420,406

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

Accrued Interest	1,979	
Bond Accretion	(36,130)	
Total		(34,151)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 152,056

*Change in Net Assets of Governmental Activities* (\$1,243,620)

See accompanying notes to the basic financial statements

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

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$4,267,822	\$4,422,703	\$4,422,703	\$0
Intergovernmental	11,173,955	11,579,462	11,579,462	0
Interest	148,775	157,641	154,174	(3,467)
Tuition and Fees	121,708	126,124	126,125	1
Rentals	2,745	2,845	2,845	0
Contributions and Donations	1,158	1,200	1,200	0
Miscellaneous	29,752	23,286	23,287	1
<i>Total Revenues</i>	15,745,915	16,313,261	16,309,796	(3,465)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,224,774	8,144,829	8,080,574	64,255
Special	2,023,360	2,003,897	2,003,482	415
Vocational	226,610	224,681	181,324	43,357
Support Services:				
Pupils	776,624	769,191	768,345	846
Instructional Staff	1,034,138	1,024,212	1,023,679	533
Board of Education	41,906	41,499	40,591	908
Administration	1,603,362	1,588,118	1,588,167	(49)
Fiscal	443,595	439,396	440,102	(706)
Operation and Maintenance of Plant	1,884,068	1,866,333	1,864,734	1,599
Pupil Transportation	883,031	874,598	875,701	(1,103)
Central	10,911	10,808	27,886	(17,078)
Extracurricular Activities	267,944	265,346	265,324	22
<i>Total Expenditures</i>	17,420,323	17,252,908	17,159,909	92,999
<i>Excess of Revenues Under Expenditures</i>	(1,674,408)	(939,647)	(850,113)	89,534
<b>Other Financing Sources (Uses)</b>				
Advances In	599,679	599,679	599,679	0
Advances Out	(26,780)	(26,780)	(49,316)	(22,536)
Transfers In	40,916	40,916	40,916	0
Transfers Out	(1,295,000)	(1,295,000)	(20,000)	1,275,000
<i>Total Other Financing Sources (Uses)</i>	(681,185)	(681,185)	571,279	1,252,464
<i>Net Change in Fund Balance</i>	(2,355,593)	(1,620,832)	(278,834)	1,341,998
<i>Fund Balance Beginning of Year</i>	1,875,624	1,875,624	1,875,624	0
Prior Year Encumbrances Appropriated	184,889	184,889	184,889	0
<i>Fund Balance (Deficit) End of Year</i>	(\$295,080)	\$439,681	\$1,781,679	\$1,341,998

See accompanying notes to the basic financial statements

**Conneaut Area City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2006*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u>\$339,522</u>
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**Liabilities**

Due to Others	312,307
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Due to Students	<u>27,215</u>
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<i>Total Liabilities</i>	<u>\$339,522</u>
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See accompanying notes to the basic financial statements

## **Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

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

The School District was established in 1962 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 58 square miles. It is located in Ashtabula County. It is staffed by 113 non-certified employees and 174 certified full-time teaching personnel who provide services to 2,186 students and other community members. The School District currently operates five instructional buildings and a bus garage.

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, agencies and offices that are not legally separate from the School District. For Conneaut Area City School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

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

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

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

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

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

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

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

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

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

### **B. Fund Accounting**

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

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

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

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

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

***Classroom Facilities Maintenance Capital Projects Fund*** The classroom facilities capital projects fund accounts for the proceeds of notes and bonds as well as grants for the building and equipping of classroom facilities.

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

***Fiduciary Fund Type*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District had no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities and workers' compensation.

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

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

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

### ***D. Basis of Accounting***

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

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

***E. Budgetary Data***

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

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

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

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

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

During fiscal year 2006, investments were limited to a repurchase agreement and STAROhio. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$154,174, which includes \$76,410 assigned from other School District funds.

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

***G. Inventory***

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

***H. Restricted Assets***

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

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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***I. Capital Assets***

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

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

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

Description	Governmental Activities Estimated Lives
Land Improvements	5 to 10 years
Buildings and Improvements	20 to 50 years
Furniture and Equipment	8 to 20 years
Vehicles	10 years
Textbooks	6 years

***J. Interfund Balances***

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

***K. Compensated Absences***

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

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

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

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

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

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

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

***M. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$4,638,713, of which none is restricted by enabling legislation. Net assets restricted for other purposes include food service operations and extracurricular activities.

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

***N. Fund Balance Reserves***

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, unclaimed monies, textbooks and school bus purchase.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation.

***O. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***P. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

***Q. Estimates***

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

**Note 3 - Changes in Accounting Principles and Restatement of Prior Year's Balances**

***A. Changes in Accounting Principles***

For fiscal year 2006, the School District has implemented GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 47 "Accounting for Termination Benefits".

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

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 42 and GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

***B. Restatement of Prior Year's Balances***

During 2006, the School District determined that cash and cash equivalents were understated in governmental funds and modified its fund classifications due to the School District re-evaluating its fund structure. The adjustment had the following effect on fund balance as previously reported.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
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	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>
Fund Balance as Previously Reported	\$1,307,238	\$393,651	\$1,174,088
Fund Reclassification	971,510	480,799	0
Cash and Cash Equivalents	0	5,405	1
Restated Balance June 30, 2005	<u>\$2,278,748</u>	<u>\$879,855</u>	<u>\$1,174,089</u>

  

	<u>Classroom Facilities Maintenance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance as Previously Reported	\$2,066,755	\$2,368,137	\$7,309,869
Fund Reclassification	0	(1,610,250)	(157,941)
Cash and Cash Equivalents	1	(88)	5,319
Restated Balance June 30, 2005	<u>\$2,066,756</u>	<u>\$757,799</u>	<u>\$7,157,247</u>

During 2006, it was determined that, in addition to the restatements for fund reclassifications and cash and cash equivalents, intergovernmental receivables and capital assets were understated, accrued interest payable was overstated, while accretion should have been included in the financial statements at June 30, 2005. These restatements had the following effect on net assets as they were previously reported.

	<u>Governmental Activities</u>
Net Assets, June 30, 2005	\$42,606,697
Fund Reclassification	(157,941)
Cash and Cash Equivalents	5,319
Intergovernmental Receivables	1,893,994
Accrued Interest Payable	23,888
Capital Assets	375,609
Accretion	(148,549)
Adjusted Net Assets, June 30, 2005	<u>\$44,599,017</u>

Total assets and liabilities in the agency funds were restated as of June 30, 2005 from \$30,365 to \$384,802, a difference of \$354,437. The restatement was the result of a fund reclassification.

**Note 4 – Accountability**

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

<i>Special Revenue Funds:</i>	
Title VI-B	\$20,979
Fruit and Vegetable Grant	1,538
Reducing Class Size	6,762
Miscellaneous Federal Grants	8,688

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

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$723,586)
Net Adjustment for Revenue Accruals	(80,411)
Advances In	599,679
Net Adjustment for Expenditure Accruals	29,766
Advances Out	(49,316)
Encumbrances	<u>(54,966)</u>
Budget Basis	<u><u>(\$278,834)</u></u>

**Note 6 - Deposits and Investments**

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

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

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### **Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$5,557,581 of the School District's bank balance of \$5,757,581 was uninsured and collateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

**Investments**

As of June 30, 2006, the School District had the following investments. All investments are in an internal investment pool.

	Carrying and Fair Value	Maturity
Repurchase Agreements	\$455,185	July 1, 2006
STAROhio	275,743	Average 34.8 Days
<i>Totals</i>	<u>\$730,928</u>	

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

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

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

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer. As of June 30, 2006, the School District allocated 62.27 percent of its investments to repurchase agreements.

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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### **Note 7 - Property Taxes**

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

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

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Ashtabula County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,586,267 in the general fund, \$317,895 in the bond retirement debt service fund, \$85,350 in the permanent improvement capital projects fund and \$28,450 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2005 was \$1,519,728 in the general fund, \$288,492 in the bond retirement debt service fund, \$85,094 in the permanent improvement capital projects fund and \$28,364 in the classroom facilities maintenance special revenue fund.

**Conneaut Area City School District**

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$158,358,080	82.86 %	\$176,000,920	83.62 %
Public Utility Personal	14,380,320	7.52	12,740,570	6.05
Tangible Personal Property	<u>18,376,330</u>	<u>9.62</u>	<u>21,733,170</u>	<u>10.33</u>
Total	<u>\$191,114,730</u>	<u>100.00 %</u>	<u>\$210,474,660</u>	<u>100.00 %</u>
Tax Rate per \$1,000 of Assessed Valuation	\$45.83		\$45.83	

**Note 8 - Receivables**

Receivables at June 30, 2006, consisted of taxes, accounts (rent, student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Miscellaneous Federal Grants	\$162,821
Title I	94,482
Title VI-B	70,960
Food Service	68,360
Classroom Reduction	25,200
Drug Free	15,779
Fruit & Vegetable	10,991
Title V	5,426
Preschool Disabilities	1,366
Ohio Reads	818
Other Local Grants	<u>463</u>
<i>Total Intergovernmental Receivables</i>	<u>\$456,666</u>

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**Note 9 – Capital Assets**

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

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
<b>Governmental Activities</b>				
<b><i>Capital Assets not being Depreciated:</i></b>				
Land	\$1,022,168	\$0	\$0	\$1,022,168
Construction in Progress	10,334,153	1,243,314	(11,577,467)	0
<b><i>Total Capital Assets not being Depreciated</i></b>	<b>11,356,321</b>	<b>1,243,314</b>	<b>(11,577,467)</b>	<b>1,022,168</b>
<b><i>Capital Assets being Depreciated:</i></b>				
Land Improvements	1,120,448	462,090	0	1,582,538
Buildings and Improvements	32,897,465	12,823,301	0	45,720,766
Furniture and Equipment	2,168,768	231,506	0	2,400,274
Vehicles	1,197,786	5,615	0	1,203,401
Textbooks	357,389	166,049	0	523,438
<b><i>Total Capital Assets being Depreciated</i></b>	<b>37,741,856</b>	<b>13,688,561</b>	<b>0</b>	<b>51,430,417</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	(207,323)	(55,737)	0	(263,060)
Buildings and Improvements	(5,381,465)	(1,029,917)	0	(6,411,382)
Furniture and Equipment	(445,722)	(147,524)	0	(593,246)
Vehicles	(726,875)	(59,223)	0	(786,098)
Textbooks	(71,478)	(133,786)	0	(205,264)
<b><i>Total Accumulated Depreciation</i></b>	<b>(6,832,863)</b>	<b>(1,426,187) *</b>	<b>0</b>	<b>(8,259,050)</b>
<b><i>Total Assets being Depreciated, Net</i></b>	<b>30,908,993</b>	<b>12,262,374</b>	<b>0</b>	<b>43,171,367</b>
<b><i>Governmental Activities Capital Assets, Net</i></b>	<b>\$42,265,314</b>	<b>\$13,505,688</b>	<b>(\$11,577,467)</b>	<b>\$44,193,535</b>

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

Instruction:	
Regular	\$1,219,177
Special	4,087
Support Services:	
Pupils	371
Instructional Staff	90,850
Administration	4,566
Operation and Maintenance of Plant	60,952
Pupil Transportation	1,205
Central	16,751
Extracurricular Activities	2,289
Operation of Non-Instructional Services:	
Food Service Operations	25,939
<b>Total Depreciation Expense</b>	<b>\$1,426,187</b>

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**Note 10 - Interfund Transactions**

***A. Interfund Transfers***

The transfer from the textbook subsidy special revenue fund for \$40,916 to the general fund was for repayment of monies that were not originally intended for repayment. The transfer for \$20,000 from the general fund to the schoolnet professional development special revenue fund was to cover costs that exceeded the grant limits.

***B. Interfund Balance***

	Interfund Receivable
	<u>General</u>
Nonmajor Funds:	
Other Local Grants	\$463
Title VI-B	20,216
Fruit & Vegetable Grant 2006	8,734
Title V	218
Drug Free Grant	10,394
Preschool Disabilities	281
Title VI-R Class Reduction	1,539
Technology II-D	7,471
Total All Funds	<u><u>\$49,316</u></u>

The interfund receivables and payables were due to the timing of the receipt of grant monies received by the various funds. The general fund provides temporary funding of the program until the grant dollars are received.

**Note 11 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Indiana Insurance Agency for various types of insurance. Coverage is as follows:

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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Coverage	Amount
Blanket Building and Contents (\$2,500 Deductible)	\$47,294,725
Inland Marine(\$500 Deductible)	850,000
Business Auto - Liability (\$1,000 Deductible)	1,000,000
Uninsured Motorists - Comprehensive (\$1,000 Deductible)	500,000
Liability	5,000,000

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

***B. Employee Medical Benefits***

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

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

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement 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.

**Note 12 - Pension Plans**

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

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

## Conneaut Area City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$277,284, \$372,516, and \$345,048, respectively; 49.88 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

## **Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,341,158, \$1,499,232, and \$1,386,564, respectively; 84.24 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$1,255 made by the School District and \$27,904 made by the plan members.

### ***C. Social Security***

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

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

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$103,166 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$129,105.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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

**Note 14 – Other Employee Benefits**

***A. Compensated Absences***

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

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

***B. Insurance***

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

***C. Health Insurance Benefits***

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

**Conneaut Area City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

**Note 15 - Long-Term Obligations**

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

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

Changes in long-term obligations of the School District during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
Classroom Facilities Bonds					
Serial Bonds	\$4,620,000	\$0	\$415,000	\$4,205,000	\$420,000
Capital Appreciation Bonds	190,895	0	0	190,895	0
Accretion	124,661	36,130	0	160,791	0
Term Bonds	1,340,000	0	0	1,340,000	0
<i>Total General Obligation Bonds</i>	6,275,556	36,130	415,000	5,896,686	420,000
<b>Other Long Term Obligations</b>					
Asbestos Abatement Loan	8,107	0	5,406	2,701	2,701
Compensated Absences	1,505,955	353,899	505,955	1,353,899	204,501
<i>Total General Long-Term Obligations</i>	\$7,789,618	\$390,029	\$926,361	\$7,253,286	\$627,202

Compensated absences will be paid from the general fund and the food service, poverty based assistance, title VI-B, title I and miscellaneous federal grants special revenue funds.

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

The serial, capital appreciation and current issue term bonds remained outstanding at June 30, 2006. The capital appreciation bonds were originally sold at a discount of \$339,105, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2010 through 2011.

**Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

The maturity amount of outstanding capital appreciation bonds at June 30, 2006 is \$530,000. The accretion recorded for 2006 was \$36,130, for a total outstanding bond liability of \$351,686 at June 30, 2006.

The School District's overall debt margin was \$11,323,904 with an unvoted debt margin of \$181,115 at June 30, 2006. Principal and interest requirements to retire the general obligation bonds follow:

	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$420,000	\$262,911	\$0	\$0	\$0	\$0
2008	240,000	245,740	0	0	0	0
2009	255,000	234,910	0	0	0	0
2010	0	0	100,631	164,369	0	0
2011	0	0	90,264	174,736	0	0
2012-2016	1,450,000	983,449	0	0	0	0
2017-2021	1,840,000	584,192	0	0	0	0
2022-2024	0	0	0	0	1,340,000	105,319
<b>Total</b>	<b>\$4,205,000</b>	<b>\$2,311,202</b>	<b>\$190,895</b>	<b>\$339,105</b>	<b>\$1,340,000</b>	<b>\$105,319</b>

The Asbestos Abatement Loan has a final principal payment due in fiscal year 2007 in the amount of \$2,701 and will be paid from bond retirement debt service fund.

**Note 16 - Jointly Governed Organizations**

***Northeast Ohio Instructional Media Center (NEOIMC)*** – NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing 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, 347 North Park Avenue, Warren, Ohio, 44481.

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

***Northeast Ohio Management Information Network (NEOMIN)*** – The North East Ohio Management Information Network (NEOMIN) is a jointly governed organization among 30 school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Service Centers. Each of the districts supports NEOMIN based upon a per pupil charge. The School District paid \$17,745 to NEOMIN during fiscal year 2006.

## **Conneaut Area City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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The Governing Board consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The degree of control exercised by a participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

***Northeast Ohio Special Education Regional Resource Center (NEO/SERRC)*** – NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NEO/SERRC is governed by a 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, 281 Market Street, Youngstown, Ohio, 44507.

### **Note 17 - Contingencies**

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

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

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

As of June 30, 2006, the School District was not party to any legal proceedings.

### **Note 18 – Public Entity Risk Pools**

#### ***A. Insurance Purchasing Pool***

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

## Conneaut Area City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

### B. Risk Sharing Pool

The School District has contracted with the Ashtabula County Schools Council of Governments to provide employee medical/surgical, prescription drug, dental and vision benefits. The Ashtabula County Schools Council of Governments is organized under Chapter 167 of the Ohio Revised Code and is comprised of seven Ashtabula County school districts. Rates are set by the Ashtabula County Schools Council of Governments board of directors. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. Ashtabula County Schools Council of Governments is a separate and independent entity governed by its own set of by-laws and constitution. All assets and liabilities are the responsibility of the Council of Governments. The program is operated as a full indemnity program with no financial liability (other than monthly premiums) or risk to the School District. The School District is not liable nor receive a cash balance of past claims upon departure from the pool.

### Note 19 - Set-Aside Calculations

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

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set -aside Cash Balance as of June 30, 2005	\$163,494	\$0
Current Year Set-aside Requirement	362,704	362,704
Current Year Offsets	0	(220,957)
Qualifying Expenditures	<u>(152,359)</u>	<u>(152,500)</u>
Totals	<u>\$373,839</u>	<u>(\$10,753)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$373,839</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$373,839</u>	<u>\$0</u>

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the two set-asides at the end of the fiscal year was \$373,839.

**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through The Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		\$89,743		\$89,743
<b>Nutrition Cluster:</b>						
School Breakfast Program	05-PU-05	10.553	\$23,035		\$23,035	
	05-PU-06		57,747		57,747	
<b>Subtotal -- School Breakfast Program</b>			<b>80,782</b>		<b>80,782</b>	
National School Lunch Program	LL-P4-05	10.555	100,734		100,734	
	LL-P4-06		280,961		280,961	
	VG-S1-06		41,304		50,038	
<b>Subtotal -- School National School Lunch Program</b>			<b>422,999</b>		<b>431,733</b>	
<b>Total - Nutrition Cluster</b>			<b>503,781</b>		<b>512,515</b>	
<b>Total U.S. Department of Agriculture</b>			<b>\$503,781</b>	<b>89,743</b>	<b>\$512,515</b>	<b>89,743</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through The Ohio Department of Education:</i>						
Improving Basic Programs Operated by Local Education Agencies Title I, Part A	C1-S1 05	84.010	123,818		\$121,780	
	C1-S1 06		666,855		665,323	
<b>Total Title I School Subsidy</b>			<b>790,673</b>		<b>787,103</b>	
<b>Special Education Cluster:</b>						
Special Education Grants to States: IDEA, Part B	6B-SF 05 P	84.027	85,917		84,148	
	6B-SF 06 P		525,199		528,577	
<b>Subtotal IDEA, Part B</b>			<b>611,116</b>		<b>612,725</b>	
Preschool Grants for Children with Disabilities: Early Childhood Special Education, IDEA	PG-S1 05 P	84.173	5,322		5,461	
	PG-S1 06 P		23,526		23,769	
<b>Subtotal Early Childhood Spec Education, IDEA</b>			<b>28,848</b>		<b>29,230</b>	
<b>Total Special Education Cluster</b>			<b>639,964</b>		<b>641,955</b>	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1 05	84.186A	\$10,688		10,688	
	DR-S1 06		4,428		4,288	
<b>Total Safe and Drug Free Schools and Communities</b>			<b>15,116</b>		<b>14,976</b>	
Innovative Programs: Title V	C2-S1 05	84.298	3,507		3,507	
	C2-S1 06		723		725	
<b>Total Innovative Programs</b>			<b>4,230</b>		<b>4,232</b>	
Enhancing Education Through Technology Program Title II-D	TJ-S1 05	84.318	18,093		1,391	
	TJ-S1 06		11,146		13,174	
<b>Total Technology, Title II-D</b>			<b>29,239</b>		<b>14,565</b>	
Comprehensive School Reform Program	RF-CC-05	84.332	\$4,336		\$4,336	
	RF-CC-06		65,273		61,064	
<b>Total Comprehensive School Reform Program</b>			<b>69,609</b>		<b>65,400</b>	
Reading First	RS-S1-05	84.357	671,300		329,844	
	RS-S1-06		1,110,986		1,094,750	
<b>Total Reading First</b>			<b>1,782,286</b>		<b>1,424,594</b>	
	TR-S1-06		165,034		165,543	
<b>Total Title II-A, Improving Teacher Quality State Grants</b>			<b>193,436</b>		<b>193,340</b>	
<b>Total U.S. Department of Education</b>			<b>2,045,331</b>		<b>1,683,334</b>	

**CONNEAUT AREA CITY SCHOOL DISTRICT**  
**ASHTABULA COUNTY**  
**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**  
**(Continued)**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Non-Cash Expenditures	Non-Cash Expenditures
<b><u>U.S. OFFICE OF LIBRARY SERVICES</u></b>						
<i>Passed Through The Ohio Library Board:</i>						
Library Services and Technology Act		45.310				2,684
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Jobs and Family Services:</i>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
<b>Medicaid Cluster:</b>						
Medical Assistance Program - Title XIX - State Children's Health Insurance Program (SCHIP)		FY2006 93.676	4,987			4,987
Community Alternative Funding System (CAFS)		FY2006 93.778	54,314		22,696	
		FY1999	40,111		40,111	
<b>Subtotal - CAFS</b>			<b>94,425</b>		<b>62,807</b>	
Total - Medicaid Cluster - Medicaid Assistance Program			<b>99,412</b>		<b>67,794</b>	
<b>Totals</b>			<b>\$4,127,746</b>	<b>\$89,743</b>	<b>\$3,729,158</b>	<b>\$89,743</b>

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

**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR FISCAL YEAR ENDED JUNE 30, 2006**

**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 non-monetary 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.

**NOTE D – TRANSFERS**

During 2006, the Ohio Department of Education (ODE) authorized the District to transfer un-needed monies between certain federal programs. Authorized transfers are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer. A detail listing of the transfers is as follows:

<u>Number</u>	<u>Program Title</u>	<u>Out</u>	<u>In</u>
84.367	Improving Teacher Quality State Grants Title II, Part A	\$ 21,510	
84.318	Education Technology State Grants Title II, Part D		\$ 21,510



# Mary Taylor, CPA

## Auditor of State

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

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

To The Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Conneaut Area City School District, Ashtabula County, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting 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 would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 material weaknesses. In a separate letter to the District's management dated September 11, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

This report is intended for the information and use of the audit committee, management, Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

September 11, 2007



# Mary Taylor, CPA

Auditor of State

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

Conneaut Area City School District  
Ashtabula County  
400 Mill Street  
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 apply to its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the 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, 2006.

The accompanying Schedule of Findings, replaces the Schedule in Conneaut Area City School District's previously-issued fiscal year ended June 30, 2006 report package. The Schedule of Findings was revised to include the Nutrition Cluster Program (CFDA #'s 10.553 and 10.555) as a tested major program, which was previously not reflected.

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### Internal Control Over Compliance

The 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 the 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 11, 2007, except for paragraphs three and four, which are dated February 4, 2008.

**CONNEAUT AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster; CFDA: 84.027 & 84.173 Reading First; CFDA 84.357 Nutrition Cluster; CFDA #'s 10.553 & 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	NO

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

NONE

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

NONE





**Mary Taylor, CPA**  
Auditor of State

**CONNEAUT AREA CITY SCHOOL DISTRICT**

**ASHTABULA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 6, 2008**