



**Auditor of State  
Betty Montgomery**



**ASHTABULA AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Ashtabula Area City School District  
Ashtabula County  
401 West 44<sup>th</sup> Street  
Ashtabula, Ohio 44005

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 Ashtabula Area City School District, Ashtabula County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 that our audit provides a reasonable basis for our opinions.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006, 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 be read in conjunction with this report in assessing the results of our audit.

Management's 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 not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

March 31, 2006

**Ashtabula Area City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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The discussion and analysis of the Ashtabula Area City School District (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for 2003 are as follows:

- Total net assets of governmental activities decreased \$680,369, which represents a 4 percent decrease from 2002.
- Total general revenues equaled \$35,460,370 or 82.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$7,450,013 or 17.4 percent of total revenues.
- Total assets of governmental activities increased by \$47,917,345. The largest portion was due to bond proceeds and property tax receivables.
- The District had \$43,590,752 in expenses related to governmental activities; \$7,450,013 of these expenses were offset by program specific charges for services, grants, contributions and interest.
- The general fund balance was \$1,444,817 at fiscal year end, down from \$2,118,600 on June 30, 2002.
- Outstanding debt was increased from a balance of \$296,732 in 2002 to \$44,281,465 due to a comprehensive building program initiated in 2003.

### **Using this Annual Financial Report**

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

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

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

**Ashtabula Area City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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***Reporting the District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets and the Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

*Fund Financial Statements*

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

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

**Ashtabula Area City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

**The District as a Whole**

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

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

	<b>Table 1</b>	
	Net Assets	
	Governmental Activities	
	2003	2002
<u>Assets</u>		
Current and Other Assets	\$ 66,159,954	\$ 19,285,456
Capital Assets	11,310,171	10,240,018
<b>Total Assets</b>	<b>77,470,125</b>	<b>29,525,474</b>
<u>Liabilities</u>		
Current and Other Liabilities	14,841,499	11,008,759
Long Term Liabilities:		
Due Within One Year	1,403,516	440,622
Due More Than One Year	46,593,919	2,764,533
<b>Total Liabilities</b>	<b>62,838,934</b>	<b>14,213,914</b>
<u>Net Assets</u>		
Invested in Capital Assets Net of Debt	11,310,171	10,240,018
Restricted	4,354,419	1,390,164
Unrestricted (Deficit)	(1,033,399)	3,681,378
<b>Total Net Assets</b>	<b>\$ 14,631,191</b>	<b>\$ 15,311,560</b>

**Ashtabula Area City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2**  
**Program Revenues and Expenses**

	Governmental Activities <u>2003</u>
<b>Revenues</b>	
Program Revenues:	
Charges for Services	\$ 757,263
Operating Grants, Contributions and Interest	6,384,783
Capital Grants, Contributions and Interest	<u>307,967</u>
Total Program Revenues	<u>7,450,013</u>
General Revenues:	
Property Taxes	14,802,904
Grants and Entitlements	19,253,284
Other	<u>1,404,182</u>
Total General Revenues	<u>35,460,370</u>
Total Revenues	<u>42,910,383</u>
<b>Program Expenses</b>	
Instruction:	
Regular	20,427,932
Special	5,534,863
Vocational	248,691
Other Instruction	76,411
Support Services	12,766,021
Operation of Non-Instructional Services	1,855,211
Extra-curricular Activities	665,395
Interest and Fiscal Charges	<u>2,016,228</u>
Total Program Expenses	<u>43,590,752</u>
Decrease in Net Assets	(680,369)
Net Assets Beginning of Year	<u>15,311,560</u>
Net Assets End of Year	<u><u>\$ 14,631,191</u></u>

**Ashtabula Area City School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2003**  
**Unaudited**

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**Analysis of Overall Financial Position and Results of Operation**

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

Instruction comprises 60 percent of governmental program expenses. Historically, the School District has promoted the excellence of the educational program by allocation of resources in the instructional area.

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

**Table 3**  
**Total and Net Cost of Program Services**

	<b>Governmental Activities</b>	
	<b>Total Cost of Services 2003</b>	<b>Net Cost of Services 2003</b>
Instruction	\$ 26,287,897	\$ 22,200,398
Support Services:		
Pupils	2,165,552	1,511,192
Instructional Staff	1,188,878	626,594
Board of Education	107,629	107,629
Administration	2,892,168	2,644,092
Fiscal	795,324	745,299
Business	532,965	513,924
Operation & Maintenance of Plant	3,321,117	3,308,380
Pupil Transportation	1,720,816	1,666,438
Central	41,572	13,396
Operation of Non-Instructional Services	1,855,211	287,679
Extra-curricular Activities	665,395	499,490
Interest and Fiscal Charges	2,016,228	2,016,228
<b>Total Expenses</b>	<b>\$ 43,590,752</b>	<b>\$ 36,140,739</b>

**Ashtabula Area City School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2003**  
**Unaudited**

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**The District's Funds**

As previously stated, governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$42,962,892, expenditures of \$88,094,430, and net other financing sources and uses of \$88,735,520. The net change in fund balance for the year was most significant in the Construction Fund, where the unreserved balance increased by \$43,979,522 due to the issuance of General Obligation bonds for construction in 2003.

**General Fund Budgeting Highlights**

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

During the course of fiscal 2003, the District amended its general fund budget periodically as defined by individual team needs.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2003 the District had \$11,310,171 invested in land, buildings, equipment, and vehicles.

Table 4 shows fiscal 2003 balances compared to 2002.

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

	<b>Governmental Activities</b>	
	<b>2003</b>	<b>2002</b>
Land	305,450	289,362
Other Improvements	475,925	209,522
Buildings	5,324,607	4,936,724
Furniture and Equipment	2,793,286	2,804,070
Vehicles	1,094,835	948,463
Textbooks	1,316,068	1,051,877
	11,310,171	10,240,018
Totals		

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

**Ashtabula Area City School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2003**  
**Unaudited**

***Debt***

At June 30, 2003, the District had bonds and notes outstanding; and a capital lease contract. Table 5 summarizes debt outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities 2003	Governmental Activities 2002
General Obligation Bonds: 2003 School Construction & Improvement	\$ 44,123,657	\$ -
Notes Payable:		
1999 Energy Conservation	70,000	170,000
Capital Leases	87,808	126,732
Total	\$ 44,281,465	\$ 296,732

**Current Issues Affecting Financial Condition**

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

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

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

In 2001, Ashtabula and Harbor High Schools were consolidated to form the new Lakeside High School. In May of 2002, the community passed Issue 1, a bond that will provide new schools throughout the district. The first school to be built will be a new high school located on Sanborn Road in Saybrook Township. Currently, the board, community, staff, and students are working together to determine the best design for students.

**Ashtabula Area City School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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The State of Ohio has committed to fund 70% of the total project cost. Other portions of the project are funded completely with local funds that were approved by the voters. The Locally Funded Initiatives, as they are called, include a Performing Arts Center, Large Group Instruction Area, and an Athletic Complex. Construction is scheduled to begin in August 2004 and be complete for the start of school in August 2006.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions or need additional financial information, contact David Mattingly, Treasurer, at Ashtabula Area City School District, 401 W. 44<sup>th</sup> St., Ashtabula or e-mail [David.Mattingly@neomin.org](mailto:David.Mattingly@neomin.org).

**Ashtabula Area City School District**

*Statement of Net Assets*

*June 30, 2003*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	50,563,081
Materials and Supplies Inventory	191,570
Accounts Receivable	42,790
Intergovernmental Receivable	464,167
Property Taxes Receivable	14,898,346
Nondepreciable Capital Assets	305,450
Depreciable Capital Assets, Net	<u>11,004,721</u>
<i>Total Assets</i>	<u>77,470,125</u>
<b>Liabilities</b>	
Accounts Payable	472,052
Accrued Wages and Benefits	3,517,836
Intergovernmental Payable	979,031
Accrued Interest Payable	153,950
Claims Payable	1,009,800
Deferred Revenue	8,708,830
Long-Term Liabilities:	
Due Within One Year	1,403,516
Due In More Than One Year	<u>46,593,919</u>
<i>Total Liabilities</i>	<u>62,838,934</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	11,310,171
Restricted for:	
Setasides	20,967
Capital Projects	2,928,656
Debt Service	710,007
Permanent Fund	26,251
Other Purposes	668,538
Unrestricted (Deficit)	<u>(1,033,399)</u>
<i>Total Net Assets</i>	<u><u>14,631,191</u></u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Revenue and Changes in Net Assets
<b>Governmental Activities</b>					Governmental Activities
<b>Instruction:</b>					
Regular	\$ 20,427,932	\$ 209,677	\$ 2,084,332	\$ 307,967	\$ (17,825,956)
Special	5,534,863	-	1,485,523	-	(4,049,340)
Vocational	248,691	-	-	-	(248,691)
Adult/Continuing	76,411	-	-	-	(76,411)
<b>Support Services:</b>					
Pupil	2,165,552	-	654,360	-	(1,511,192)
Instructional Staff	1,188,878	-	562,284	-	(626,594)
Board of Education	107,629	-	-	-	(107,629)
Administration	2,892,168	1,650	246,426	-	(2,644,092)
Fiscal	795,324	-	50,025	-	(745,299)
Business	532,965	-	19,041	-	(513,924)
Operation and Maintenance	3,321,117	-	12,737	-	(3,308,380)
Pupil Transportation	1,720,816	-	54,378	-	(1,666,438)
Central	41,572	-	28,176	-	(13,396)
Operation of Non-Instructional Services	1,855,211	417,404	1,150,128	-	(287,679)
Extracurricular Activities	665,395	128,532	37,373	-	(499,490)
Interest and Fiscal Charges	2,016,228	-	-	-	(2,016,228)
<b>Total Governmental Activities</b>	<b>\$ 43,590,752</b>	<b>\$ 757,263</b>	<b>\$ 6,384,783</b>	<b>\$ 307,967</b>	<b>(36,140,739)</b>

**General Revenues**

Sale of Fixed Assets	3,175
Property Taxes Levied for:	
General Purposes	12,106,920
Debt Service	2,695,984
Grants and Entitlements not Restricted to Specific Programs	19,253,284
Investment Earnings	1,220,318
Miscellaneous	180,689
<b>Total General Revenues</b>	<b>35,460,370</b>
Change in Net Assets	(680,369)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>15,311,560</u>
<i>Net Assets End of Year</i>	<u><u>14,631,191</u></u>

See accompanying notes to basic financial statements.

**Ashtabula Area City School District**  
*Balance Sheet*  
*June 30, 2003*

	General Fund	Bond Retirement	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 956,479	\$ 137,871	\$ 44,075,117	\$ 4,052,442	\$ 49,221,909
Restricted Assets	20,967	-	-	-	20,967
Materials and Supplies Inventory	138,481	-	-	53,089	191,570
Accounts Receivable	39,018	-	-	3,772	42,790
Interfund Receivable	440,649	-	-	-	440,649
Intergovernmental Receivable	27,444	-	-	436,723	464,167
Property Taxes Receivable	10,673,870	2,687,445	-	1,537,031	14,898,346
<i>Total Assets</i>	<u>12,296,908</u>	<u>2,825,316</u>	<u>44,075,117</u>	<u>6,083,057</u>	<u>65,280,398</u>
<b>Liabilities</b>					
Accounts Payable	176,265	-	95,595	197,342	469,202
Accrued Wages	2,986,854	-	-	530,982	3,517,836
Intergovernmental Payable	518,197	-	-	111,161	629,358
Interfund Payable	-	-	-	440,649	440,649
Compensated Absences Payable	131,806	-	-	3,428	135,234
Deferred Revenue	7,038,969	1,690,683	-	1,040,664	9,770,316
<i>Total Liabilities</i>	<u>10,852,091</u>	<u>1,690,683</u>	<u>95,595</u>	<u>2,324,226</u>	<u>14,962,595</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	26,158	-	672,172	264,672	963,002
Reserved for Budget Stabilization	20,967	-	-	-	20,967
Reserved for Future Appropriation	3,634,901	996,762	-	534,185	5,165,848
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	(2,237,209)	-	-	-	(2,237,209)
Special Revenue Funds	-	-	-	688,768	688,768
Debt Service Funds	-	137,871	-	-	137,871
Capital Projects Funds	-	-	43,307,350	2,244,955	45,552,305
Permanent Funds	-	-	-	26,251	26,251
<i>Total Fund Balances</i>	<u>1,444,817</u>	<u>1,134,633</u>	<u>43,979,522</u>	<u>3,758,831</u>	<u>50,317,803</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 12,296,908</u>	<u>\$ 2,825,316</u>	<u>\$ 44,075,117</u>	<u>\$ 6,083,057</u>	<u>\$ 65,280,398</u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2003*

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<i>Total Governmental Funds Balances</i>		\$ 50,317,803
 <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		11,310,171
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	1,061,486	
Total		1,061,486
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		 307,555
 Premiums received from the sale of general obligation bonds are considered financial resources and reported as revenue in the funds but deferred in the statement of net assets.		 (474,121)
 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	(44,123,657)	
Notes Payable	(70,000)	
Capital lease Payable	(87,808)	
Compensated Absences	(3,106,615)	
Pension Obligation	(349,673)	
Accrued Interest Payable	(153,950)	
Total		(47,891,703)
 <i>Net Assets of Governmental Activities</i>		 <u>\$ 14,631,191</u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*June 30, 2003*

	General Fund	Bond Retirement Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 10,582,452	\$ 2,492,539	\$ -	\$ 1,785,843	\$ 14,860,834
Intergovernmental	19,626,537	154,779	-	6,153,431	25,934,747
Interest	785,628	-	433,565	1,125	1,220,318
Tuition and Fees	206,884	-	-	2,793	209,677
Charges for Services	-	-	-	417,404	417,404
Extracurricular Activities	-	-	-	130,182	130,182
Contributions and donations	-	-	-	11,287	11,287
Miscellaneous	77,340	-	62,700	38,403	178,443
<i>Total Revenues</i>	<u>31,278,841</u>	<u>2,647,318</u>	<u>496,265</u>	<u>8,540,468</u>	<u>42,962,892</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	16,135,655	-	-	3,290,424	19,426,079
Special	4,085,721	-	-	1,366,937	5,452,658
Vocational	241,521	-	-	866	242,387
Adult/Continuing	76,411	-	-	-	76,411
Support Services:					
Pupil	1,493,188	-	-	636,846	2,130,034
Instructional Staff	486,158	-	-	606,736	1,092,894
Board of Education	107,629	-	-	-	107,629
Administration	2,544,462	-	-	269,915	2,814,377
Fiscal	625,071	27,906	-	126,208	779,185
Business	514,579	-	-	11,956	526,535
Operation and Maintenance of Plant	3,180,520	-	-	74,580	3,255,100
Pupil Transportation	1,553,582	-	-	36,539	1,590,121
Central	20,319	-	-	21,188	41,507
Operation of Non-Instructional Services	-	-	-	1,801,941	1,801,941
Extracurricular Activities	445,266	-	-	204,216	649,482
Capital Outlay	503	-	973,000	1,039,988	2,013,491
Debt Service:					
Principal Retirement	-	44,223,701	-	-	44,223,701
Interest and Fiscal Charges	-	1,870,898	-	-	1,870,898
<i>Total Expenditures</i>	<u>31,510,585</u>	<u>46,122,505</u>	<u>973,000</u>	<u>9,488,340</u>	<u>88,094,430</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(231,744)</u>	<u>(43,475,187)</u>	<u>(476,735)</u>	<u>(947,872)</u>	<u>(45,131,538)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Fixed Assets	3,175	-	-	-	3,175
General Obligation Bonds Issued	-	44,127,079	-	-	44,127,079
Premium on Debt Issuance	-	482,741	-	-	482,741
General Obligation Notes Issued	-	-	44,127,049	(4,524)	44,122,525
Transfers In	-	-	329,208	236,151	565,359
Transfers Out	(417,907)	-	-	(147,452)	(565,359)
<i>Total Other Financing Sources (Uses)</i>	<u>(414,732)</u>	<u>44,609,820</u>	<u>44,456,257</u>	<u>84,175</u>	<u>88,735,520</u>
<i>Net Change in Fund Balances</i>	<u>(646,476)</u>	<u>1,134,633</u>	<u>43,979,522</u>	<u>(863,697)</u>	<u>43,603,982</u>
<i>Fund Balances (Deficits) Beginning of Year - Restated (See Note 3)</i>	<u>2,091,293</u>	<u>-</u>	<u>-</u>	<u>4,622,528</u>	<u>6,713,821</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,444,817</u>	<u>\$ 1,134,633</u>	<u>\$ 43,979,522</u>	<u>\$ 3,758,831</u>	<u>\$ 50,317,803</u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the State of Activities  
For the Fiscal Year Ended June 30, 2003*

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*Net Change in Fund Balances - Total Governmental Funds* \$ 43,603,982

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the current period.	1,070,153
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(57,930)
Premiums received on the sale of general obligation bonds are reported as revenue in the funds but are amortized over the life of the bonds in the statement of activities.	(474,121)
Repayment of note principal and lease obligations are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.	138,924
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(153,950)
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated Absences	(203,074)
Pension Obligation	(52,298)
Bond Issuance	(44,123,657)
Total	(44,379,029)
The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities	(428,398)
<i>Change in Net Assets of Governmental Activities</i>	<b>\$ (680,369)</b>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)*  
**General Fund**  
*For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$ 9,251,713	\$ 10,832,456	\$ 10,354,115	\$ (478,341)
Intergovernmental	20,442,971	19,586,882	19,626,537	39,655
Interest	500,000	542,000	540,475	(1,525)
Tuition and Fees	160,000	168,115	183,057	14,942
Miscellaneous	50,000	62,500	46,158	(16,342)
<i>Total Revenues</i>	<u>30,404,684</u>	<u>31,191,953</u>	<u>30,750,342</u>	<u>(441,611)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	16,138,792	16,040,026	15,926,275	113,751
Special	4,068,647	4,169,303	4,089,372	79,931
Vocational	238,764	244,236	240,662	3,574
Adult/Continuing	82,536	82,536	76,411	6,125
Support Services:				
Pupils	1,675,470	1,713,626	1,515,513	198,113
Instructional Staff	572,592	578,015	485,395	92,620
Board of Education	128,268	129,924	112,006	17,918
Administration	2,597,635	2,564,449	2,465,232	99,217
Fiscal	747,500	744,108	639,024	105,084
Business	450,690	599,488	514,455	85,033
Operation and Maintenance of Plant	3,097,633	3,383,333	3,193,536	189,797
Pupil Transportation	1,317,820	1,588,772	1,565,188	23,584
Central	83,200	84,050	20,663	63,387
Operation of Non-Instructional Services		-	-	-
Extracurricular Activities	393,005	411,555	411,214	341
Capital Outlay	474	504	503	1
<i>Total Expenditures</i>	<u>31,593,026</u>	<u>32,333,925</u>	<u>31,255,449</u>	<u>1,078,476</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,188,342)</u>	<u>(1,141,972)</u>	<u>(505,107)</u>	<u>636,865</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets		3,640	3,176	(464)
Refund of Prior Year Expenditures		(17,691)	(17,691)	-
Advances In		1,559,849	1,559,849	-
Advances Out		-	(1,400,973)	(1,400,973)
Transfers In		1,200	-	(1,200)
Transfers Out	(87,461)	(514,271)	(426,873)	87,398
<i>Total Other Financing Sources (Uses)</i>	<u>(87,461)</u>	<u>1,032,727</u>	<u>(282,512)</u>	<u>(1,315,239)</u>
<i>Net Change in Fund Balance</i>	(1,275,803)	(109,245)	(787,619)	(678,374)
<i>Fund Balance Beginning of Year</i>	963,814	963,814	963,814	-
Prior Year Encumbrances Appropriated	406,644	406,644	406,644	-
<i>Fund Balance End of Year</i>	<u>\$ 94,655</u>	<u>\$ 1,261,213</u>	<u>\$ 582,839</u>	<u>\$ (678,374)</u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**

*Statement of Fund Net Assets*

*Propriety Fund*

*June 30, 2003*

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	Governmental Activities - Internal Service Fund
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,320,205</u>
<i>Total Assets</i>	<u>1,320,205</u>
<b>Liabilities</b>	
Accounts Payable	2,850
Claims Payable	<u>1,009,800</u>
<i>Total Liabilities</i>	<u>1,012,650</u>
<b>Net Assets</b>	
Unrestricted	<u>307,555</u>
<i>Total Net Assets</i>	<u><u>\$ 307,555</u></u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2003*

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	<u>Governmental Activities - Internal Service Fund</u>
<b>Operating Revenues</b>	
Charges for Services	\$ 4,448,243
	<u>4,448,243</u>
<i>Total Operating Revenue</i>	<u>4,448,243</u>
<b>Operating Expenses</b>	
Purchased Services	577,056
Claims	4,299,584
	<u>4,876,640</u>
<i>Total Operating Expenses</i>	<u>4,876,640</u>
<i>Change in Net Assets</i>	(428,397)
<i>Net Assets Beginning of Year</i>	<u>735,952</u>
<i>Net Assets End of Year</i>	<u>\$ 307,555</u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2003*

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	Governmental Activities - Internal Service Fund
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<b>Cash Flows from Operating activities:</b>	
Cash Received from Other Funds	\$ 4,813,908
Cash Payments for Purchased Services	(575,027)
Cash Payments for Claims	(3,699,189)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	539,692
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	539,692
<i>Cash and Cash Equivalents at Beginning of Year</i>	780,513
	<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	\$ 1,320,205
	<hr/> <hr/>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
<i>Operating Loss</i>	\$ (428,397)
Adjustments:	
(Increase) Decrease in Assets:	
Accounts Receivable	365,665
Increase (Decrease) in Liabilities	
Accounts Payable	(27,298)
Claims Payable	629,722
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	\$ 539,692
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2003*

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	<u>Private Purpose Trusts</u>	<u>Agency Fund</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 11,855	\$ 57,944
Investments	8,454	-
Accounts Receivable	-	153
	<hr/>	<hr/>
<i>Total Assets</i>	20,309	58,097
	<hr/>	<hr/>
<b>Liabilities</b>		
Accounts Payable	-	1,070
Due to Students	-	57,027
	<hr/>	<hr/>
<i>Total Liabilities</i>	-	<u>\$ 58,097</u>
	<hr/>	<hr/>
<b>Net Assets</b>		
Held in Trust	20,309	
	<hr/>	
<i>Total Net Assets</i>	<u>\$ 20,309</u>	

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2003*

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	Private Purpose Trusts
<b>Additions</b>	
Investment Earnings	\$ 267
Contributions and Donations	<u>8,447</u>
<i>Total Additions</i>	<u>8,714</u>
<b>Deductions</b>	
Scholarships Awarded	<u>1,127</u>
<i>Total Deductions</i>	<u>1,127</u>
<i>Change in Net Assets</i>	7,587
<i>Net Assets Beginning of Year</i>	<u>12,722</u>
<i>Net Assets End of Year</i>	<u><u>\$ 20,309</u></u>

See accompanying notes to the basic financial statements.

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**NOTE 1 – DESCRIPTION OF DISTRICT**

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

The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the district as mandated by state and/or federal agencies. The District is a city school district as defined by Section 3311.02 of the Ohio Revised Code. Average daily membership (ADM) as of October 1, 2003, was 4,844. The District employed 30 administrative and supervisory personnel, 682 certified employees and 557 non-certificated employees.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1090, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

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

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

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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***Jointly Governed Organizations***

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. The District contributed \$71,775 to NEOMIN during fiscal year 2003.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a treasurer from each county. The District was represented on the Governing Board by the District's superintendent during fiscal year 2003. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio, 44481.

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

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

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

Northeast Ohio Instructional Media Center (NEOIMC)

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

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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Ashtabula County Joint Vocational School District

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

***Public Entity Risk Pool***

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

***Related Organizations***

Non-public schools

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

Harbor-Topky Memorial Library

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

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

**B. Fund Accounting**

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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Governmental Funds

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

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

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

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

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

Proprietary Fund

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

Internal Service Fund – The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for a self-insurance program which provides medical, prescription, dental and life insurance benefits of the District's employees.

Fiduciary Funds

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**C. Basis of Presentation and Measurement Focus**

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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

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

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

**D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
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***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenditures/Expenses***

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

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

**E. Budgetary Process**

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

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

**Tax Budget**

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

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by The District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003. Prior to year-end, the District requested and received an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources, based on final assessed values and tax rates, or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education.

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

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The District had monthly supplemental appropriation resolutions during fiscal year 2003.

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

**F. Cash and Investments**

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the fiscal year amounted to \$785,628.

For the District, all investment earnings accrue to the General Fund, Capital Fund, Auxiliary Service Fund, one Expendable and two Non-Expendable Trust Funds as authorized by board resolution. Interest income earned in fiscal year 2003 totaled \$1,220,318.

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

**G. Inventory**

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

**H. Restricted Assets**

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

**I. Capital Assets**

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

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

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

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

**J. Interfund Balances**

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

**K. Compensated Absences**

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

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

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

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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

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

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

**M. Net Assets**

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

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

**N. Fund Balance Reserves and Designations**

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

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

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

**O. Operating Revenues and Expenses**

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**P. Interfund Activity**

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

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

**Q. Estimates**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. Prior Period Adjustment – Accounting Error**

The year-end food services inventory was recorded in both the Lunchroom and the General Fund in fiscal year ending June 30, 2002, resulting in \$27,307 overstatement of assets. The effect on fund balance is included in the table below.

**B. Changes in Accounting Principles and Restatement of Fund Balance**

*Changes in Accounting Principles* For fiscal year 2003, the District has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

**Ashtabula Area City School District**  
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GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements split the District's programs between business-type and governmental activities. The District has no business type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the district not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not affect the presentation of the budgetary statements of the District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**Restatement of Fund Balance** For the District, it was determined that enterprise funds should be reclassified to special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Non Major	Total
Fund Balances, June 30, 2002	\$1,891,937	\$ 5,029,203	\$ 6,921,140
Prior Period Adjustment	(27,307)		(27,307)
Fund Reclassification	20,767	(409,787)	(389,020)
Interpretation 6:			
Compensated Absences	205,896	3,112	209,008
Adjusted Fund Balances, June 30, 2002:	\$2,091,293	\$ 4,622,528	\$ 6,713,821
GASB 34 Adjustments:			
Capital Assets			10,240,018
Pension Obligation			(297,374)
Long-term Liabilities			(3,073,541)
General Obligation Leases			(126,732)
Long Term (Deferred) Assets			1,119,416
Internal Service Fund Net Assets			735,952
Governmental Activities Net Assets at June 30, 2002			\$15,311,560

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
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**C. Deficit Fund Balances**

Fund balances at June 30, 2003, included the following individual fund deficits:

Education Management	\$ (16,760)
Title II-A	\$ (133)
Lunchroom	\$ (24,362)

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

**NOTE 4 – EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Cash on Hand* At fiscal year-end, the District had \$4,425 in undeposited cash on hand which is included on the basic financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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

*Deposits* At year end, the carrying amount of the District's deposits was \$10,633,396 and the bank balance was \$9,866,992, of which \$300,000 was covered by federal depository insurance. The remaining amounts were protected by qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
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*Investments* The District's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the District's name. Investments in STAR Ohio, are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Fair Value
Repurchase Agreements	\$ 37,320,674	\$ 37,320,674
STAROhio		2,682,839
Total Investments	\$ 37,320,674	\$ 40,003,513

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteris set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 50,641,334	\$ -
Cash on Hand	(4,425)	-
Investments - Part of the Cash Management pool:		
Repurchase Agreements	(37,320,674)	37,320,674
STAROhio	(2,682,839)	2,682,839
GASB Statement No. 3	\$ 10,633,396	\$ 40,003,513

**NOTE 5 – PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002. Assessed values for real property are established by the State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

The Ashtabula County Treasurer collects property tax on behalf of the District. The Ashtabula County Auditor remits to the District the taxes collected. Tax settlements are made each February and August for real property taxes and each June and October for personal property taxes. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

The full tax rate at the fiscal year ending June 30, 2003, for operations was \$51.55 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the 2003 taxes were collected were as follows:

Real Property	\$357,340,170
Public Utility Personal Property	33,356,740
Tangible Personal Property	<u>50,142,390</u>
Total Assessed Value	<u><u>\$440,839,300</u></u>

Accrued property taxes receivable include real property, tangible personal property and public utility taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2003 was \$3,634,901 in the General Fund, \$996,762 in the Bond Retirement Fund and \$534,185 in the Permanent Improvement Fund.

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
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**NOTE 6 – RECEIVABLES**

Receivables at June 30, 2003, consisted of taxes, accounts (student fees), interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

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

Governmental Activities		
Property taxes	\$	14,898,346
Accounts		42,790
Intergovernmental		<u>464,167</u>
Total	\$	<u><u>15,405,303</u></u>

**NOTE 7 – CAPITAL ASSETS**

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

	Balance at 6/30/2002	Additions	Reductions	Balance at 6/30/2003
Governmental Activities				
Capital assets, not being depreciated				
Land	\$289,362	16,088	-	305,450
Other Improvements	459,422	301,588	-	761,010
Buildings	10,656,285	595,659	-	11,251,944
Furniture and Equipment	5,827,333	382,559	(181,746)	6,028,146
Vehicles	2,502,135	346,340	(721,493)	2,126,982
Textbooks	1,278,313	534,041	-	1,812,354
Totals at Historical Cost	<u>21,012,850</u>	<u>2,176,275</u>	<u>(903,239)</u>	<u>22,285,886</u>
Less Accumulated Depreciation:				
Other Improvements	(249,900)	(35,185)	-	(285,085)
Buildings	(5,719,561)	(207,776)	-	(5,927,337)
Furniture and Equipment	(3,023,263)	(338,347)	126,750	(3,234,860)
Vehicles	(1,553,672)	(127,819)	649,344	(1,032,147)
Textbooks	(226,436)	(269,850)	-	(496,286)
Total Accumulated Depreciation	<u>(10,772,832)</u>	<u>(978,977)</u>	<u>776,094</u>	<u>(10,975,715)</u>
Net General Assets	<u>\$10,240,018</u>	<u>1,197,298</u>	<u>(127,145)</u>	<u>11,310,171</u>

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 669,905
Special	17,119
Vocational	3,018
Support services	
Pupil	3,764
Instructional staff	46,607
Administration	45,691
Fiscal	9,467
Business	1,385
Operation and maintenance of plant	26,399
Pupil Transportation	111,726
Operation of non-instructional services	
	28,140
Extracurricular Activities	<u>15,756</u>
 Total Governmental Activities	 <u><u>\$ 978,977</u></u>

**NOTE 8 – LONG-TERM OBLIGATIONS**

The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$451,904 from \$2,583,252 to \$3,035,156 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3. In addition, pension obligations of \$98,146 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end.

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Restated Balance at 6/30/2002	Additions	Deductions	Balance at 6/30/2003	Amounts Due in One Year
General Obligation Bonds:					
OSF Construction Bonds	\$ -	\$ 44,123,657	\$ -	\$ 44,123,657	\$ 745,000
Unamortized Premium	-	482,741	(8,620)	474,121	-
Total General Obligation Bond	-	44,606,398	(8,620)	44,597,778	745,000
Notes Payable	170,000	-	(100,000)	70,000	70,000
Capital Leases	126,732	-	(38,924)	87,808	42,155
Compensated Absences	3,035,156	375,546	(168,853)	3,241,849	546,361
	-				
Total Long-Term Liabilities	\$ 3,331,888	\$ 44,981,944	\$ ( 316,397)	\$ 47,997,435	\$ 1,403,516

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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

	Series A		Series B	
	Principal	Interest	Principal	Interest
2004	\$ 330,000	\$ 1,743,328	\$ 415,000	\$ 94,975
2005	825,000	1,726,003	405,000	86,775
2006	850,000	1,704,490	410,000	78,625
2007	374,796	2,265,556	420,000	70,325
2008	301,928	2,338,425	430,000	61,503
2009-2013	4,593,234	8,878,506	2,043,699	412,121
2014-2018	6,615,000	7,026,803	-	-
2019-2023	8,225,000	5,354,319	-	-
2024-2030	17,885,000	3,729,838	-	-
	<u>\$ 39,999,958</u>	<u>\$ 34,767,268</u>	<u>\$ 4,123,699</u>	<u>\$ 804,324</u>

On June 7, 1999 the Board of Education authorized the issuance of the notes in the maximum amount of \$315,000. The notes were dated June 1, 1999 for \$315,000 and mature annually through April 15, 2004 with interest payable at 5.14%.

	Payment	Interest	Principal
FY2004	<u>\$73,605</u>	<u>\$3,605</u>	<u>\$70,000</u>
	<u>\$73,605</u>	<u>\$3,605</u>	<u>\$70,000</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2003, are a voted debt margin of \$39,675,537 and an unvoted debt margin of \$440,839.

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**NOTE 9 – COMPENSATED ABSENCES**

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

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

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

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

The Superintendent earns 25 days vacation per year. All or part of vacation leave accrued but unused at the end of any contract year (July 31) may be exchanged for cash, at the option of the Superintendent, at his current per diem pay rate. All vacation leave which is accrued and unused and which is not exchanged for cash, shall be accumulated and carried forward from year to year under the current contract.

The Treasurer earns 25 days vacation per year and may carry over 30 days from one year to the next.

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

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

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

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

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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The plan is as follows:

1. The R.I. payment shall be equal to 20% (25% for retirees employed for 30 years or more) of the retirees placement on the salary schedule for the last full school year worked.
2. The R.I. payment shall be made the first certificated pay in January of the following calendar year.
3. The Severance payment shall be made the first certificated pay in January in the calendar year following the R.I. payment.

The first time an employee meets the criteria for the R.I. Plan as outlined above is the only time the plan is offered to an employee.

**NOTE 10 – RISK MANAGEMENT**

**General Risk**

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. Other liability insurance includes \$25,000 for the district superintendent and \$50,000 for the district treasurer. Additionally the district has commercial crime coverage of \$10,000.

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

The District maintains replacement cost insurance on buildings and contents in the amount of \$57,695,183. Other property insurance includes \$2,458,212 for musical instrument, related equipment and accessories and electronic data processing hardware.

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

**Workers' Compensation**

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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

**Health Insurance**

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

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

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

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$1,009,800 at June 30, 2003.

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

<u>Fiscal</u> <u>Year</u>	<u>Beginning</u> <u>Balance</u>	<u>Current</u> <u>Year</u> <u>Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Ending</u> <u>Balance</u>
2003	\$380,078	\$4,328,911	\$(3,699,189)	\$1,009,800
2002	475,665	3,231,943	(3,327,530)	380,078
2001	783,505	2,892,779	(3,200,619)	475,665

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**NOTE 11 – DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 adequacy of the contribution rates is determined annually.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$781,844, \$,706,008, and \$710,616, respectively; 68.54% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$223,560, represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salaries and the District is required to contribute 14%. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,678,934, \$2,361,744, and \$2,379,600, respectively; 83.31% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$447,232, represents the unpaid contribution for fiscal year 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**NOTE 12 – POSTEMPLOYMENT BENEFITS**

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

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$184,686 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$368.739 million and STRS had 111,853 eligible benefit recipients.

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For fiscal year 2004, employer contributions to fund health care benefits were 4.91% of covered payroll and for this fiscal year 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004 and 2003, the minimum pay has been established at \$14,500 and \$12,400 respectively. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount to fund health care benefits, including surcharge, equaled \$289,732 during the 2003 fiscal year.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003 (the latest information available), SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits.

**NOTE 13 – INTERFUND TRANSACTIONS**

**Interfund balances**

Interfund balances consisted of the following at June 30, 2003, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 440,649

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the Statement of Net Assets.

**Interfund transfers**

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

Transfers To	Transfers From		Total
	General Fund	Other Governmental Funds	
Construction	\$ 329,208	\$ -	\$ 329,208
Other Governmental Funds	88,699	147,452	236,151
Total	\$ 417,907	\$ 147,452	\$ 565,359

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

Additionally, there were transfers from the general fund to the District managed student activity agency funds totaling \$8,965 which were reclassified as expenditures in the general fund.

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

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

**NOTE 14 – BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

<b>Net Change in Fund Balance</b>	
Budget basis	\$ (787,619)
Net adjustment for revenue accruals	524,637
Net adjustment for expenditure accruals	(379,961)
Net adjustment for other sources/uses	(132,221)
Adjustment for encumbrances	128,266
Adjustment for fund reclassification	422
GAAP basis	<u><u>\$ (646,476)</u></u>

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

**NOTE 15 – CONTINGENCIES**

**A. Grants**

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on the financial position of the District at June 30, 2003.

**B. Litigation**

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

**C. State School Funding Decision**

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

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

**NOTE 16 – STATUTORY RESERVES**

The District is required by state law to annually set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the year ended June 30, 2003, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30, 2002	\$ (517,690)	\$ -	\$ 314,709
Current year set-aside requirement	656,016	656,016	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(1,079,846)</u>	<u>(1,610,911)</u>	<u>(293,742)</u>
Total	<u>\$ (941,520)</u>	<u>\$ (954,895)</u>	<u>\$ 20,967</u>
Balance carried forward to FY 2004	<u>\$ (941,520)</u>	<u>\$ -</u>	<u>\$ 20,967</u>

**Ashtabula Area City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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

**NOTE 17 – CAPITAL LEASES**

During the year ended June 30, 2003, the District entered into a lease agreement for six copiers. The lease obligation meets the criteria of a capital lease, as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, and has been recorded in the general long-term obligations account group. The agreement provides for minimum annual rental payments as follows:

	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>
FY2004	\$49,443	\$7,288	\$42,155
FY2005	49,443	3,790	45,653
	\$98,886	11,078	\$87,808

**NOTE 18 – OPERATING LEASES**

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

A 60-month lease with Xerox, which began in May 1999. At the end of the lease term, the District has the option to renew the lease on a month-to-month basis or to purchase the copier for \$450. The District does not intend to exercise the purchase option at the end of the lease term.

A 60-month lease with Danka, which began in April 2000. Copiers for use in various schools with an option for purchase at the end of the lease.

A 60-month lease with Danka which began in September 2000. Copiers for three elementary buildings with an option for purchase at the end of the lease.

The total rental expense for the year ended June 30, 2003 for the various operating leases was \$68,106.

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

FY2004	\$1,996
Total	\$1,996

Warehouse property was leased for stockroom supplies and total rent expense paid for this lease for the year ended June 30, 2003, was \$6,600.

Property was leased for parking for Lakeside High School and a total rent expense paid for this lease for the year ended June 30, 2003 was \$2,400.

ASHTABULA AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$101,289		\$95,285
National School Breakfast Program	05-PU-2002 05-PU-2003	10.553	\$46,282 112,892		\$46,282 112,892	
Subtotal - CFDA No. 10.553			159,174		159,174	
National School Lunch Program	LL-P4-2002 LL-P4-2003	10.555	183,631 500,593		183,631 500,593	
Subtotal - CFDA No. 10.555			684,224		684,224	
Total Department of Agriculture - Nutrition Cluster			843,398	101,289	843,398	95,285
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2002 C1-S1-2003 C1-SK-2003	84.010	121,825 1,147,393 64,198		383,600 1,009,500 62,666	
Subtotal - CFDA No. 84.010			1,333,416		1,455,766	
Special Education Cluster:						
Special Education Grants to States - Title VI-B	6B-2-2002 6B-SF-2002 6B-SF-2003	84.027	15,619 172,362 569,555		15,619 131,742 506,533	
Subtotal - CFDA No. 84.027			757,536		653,894	
Special Education Preschool Grants	PG-S1-2001 PG-S1-2002	84.173	13,197 28,901		7,427 23,989	
Subtotal - CFDA No. 84.173			42,098		31,416	
Total Special Education Cluster			799,634		685,310	
Safe and Drug Free Schools	DR-S1-2001 DR-S1-2002 DR-S1-2003	84.186	0 20,555 42,265		2,755 24,031 34,406	
Subtotal - CFDA No. 84.186			62,820		61,192	
Goals 2000 - State and Local Educational Systematic Improvement Grants	G2-S2-2000 G2-S3-2001 G2-S2-2001	84.276	0 -4,369 -3,880		1,115 0 4,023	
Subtotal - CFDA No. 84.276			-8,249		5,138	
Eisenhower Professional Development State Grants	MS-S1-2001 MS-S1-2002	84.281	3,957 -4,231		5,021 2,562	
Subtotal - CFDA No. 84.281			-274		7,583	
Innovative Educational Program Strategies	C2-S1-2001 C2-S1-2002 C2-S1-2003	84.298	3,050 22,147 20,024		827 22,524 890	
Subtotal - CFDA No. 84.298			45,221		24,241	

ASHTABULA AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Enhancing Education Through Technology	TJ-S1-2003	84.318	41,592		32,379	
State Program Improvement Grant - Special Education	ST-S1-2001	84.323	15,268		12,754	
Comprehensive School Reform Program - OESE	RF-CC-2003	84.332	49,999		19,307	
Reading Excellence Act	RN-S1-2000	84.338	179,758		90,066	
Class Size Reduction - ESEA Title VI-R	CR-S1-2002	84.340	-97,572		40,582	
Assistive Technology Infusion Project	AT-S3-2002	84.352	8,564		8,561	
English Language Acquisition: State Formula Grant Program - Title III	T3-S1-2003	84.365	19,140		16,000	
Improving Teacher Quality State Grants - Title II-A	TR-S1-2003	84.367	292,506		210,477	
<i>Passed Through Ohio Department of Education; passed through Ashtabula County Joint Vocational School:</i>						
Vocational Education - Basic Grants to States Career Education Mini Grant	VED-NN-02 VED-NN-03	84.048	0 <u>4,777</u>		499 <u>4,777</u>	
Subtotal - CFDA No. 84.048			<u>4,777</u>		<u>5,276</u>	
Total Department of Education			2,746,600		2,674,632	
<b>UNITED STATES DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Human Services; passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Cluster: Medical Assistance Program - Title XIX - Community Alternative Funding System		93.778	<u>279,948</u>		<u>95,782</u>	
<b>Totals</b>			<b><u>\$3,869,946</u></b>	<b><u>\$101,289</u></b>	<b><u>\$3,613,812</u></b>	<b><u>\$95,285</u></b>

*The notes to the schedule of federal awards expenditures is an integral part of this schedule.*

**ASHTABULA AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (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 [entity type] 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.



## **Auditor of State Betty Montgomery**

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

Ashtabula Area City School District  
Ashtabula County  
401 West 44<sup>th</sup> Street  
Ashtabula, Ohio 44005

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 Ashtabula Area City School District (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2006, wherein we noted the District adopted Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **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 opinions 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.

#### **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 that we must report under *Government Auditing Standards*.

Ashtabula Area City School District  
Ashtabula County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

March 31, 2006



**Auditor of State  
Betty Montgomery**

**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**

Ashtabula Area City School District  
Ashtabula County  
401 West 44<sup>th</sup> Street  
Ashtabula, Ohio 44005

To the Board of Education:

**Compliance**

We have audited the compliance of Ashtabula Area City School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2003. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. 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 District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2003.

**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 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 management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

March 31, 2006

**ASHTABULA AREA CITY SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2003**

**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 weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions 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 weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions 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):	Grants to Local Educational Agencies ESEA Title 1 – CFDA Number 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

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

None





**Auditor of State  
Betty Montgomery**

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**ASHTABULA AREA CITY SCHOOL DISTRICT**

**ASHTABULA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 4, 2006**