

NEW MIAMI LOCAL SCHOOL DISTRICT

General Purpose Financial Statements

Year Ended June 30, 2002

With

Independent Auditors' Report



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

Board of Education
New Miami Local School District
600 Seven Mile Avenue
New Miami, Ohio 45011

We have reviewed the Independent Auditor's Report of the New Miami Local School District, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The New Miami Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

December 27, 2002

This Page is Intentionally Left Blank.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
New Miami Local School District:

We have audited the accompanying general purpose financial statements of New Miami Local School District as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of New Miami Local School District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2002, except for Note 19, as to which the date is December 11, 2002, on our consideration of New Miami Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as 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 general purpose financial statements of New Miami Local School District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 5, 2002
except for Note 19, as to
which the date is
December 11, 2002

NEW MIAMI LOCAL SCHOOL DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2002

	Governmental Fund Types				Proprietary Fund Type		Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	General	Fixed Asset	Long-Term Debt	General	
ASSETS AND OTHER DEBITS												
ASSETS:												
Equity in pooled cash and cash equivalents	\$ 1,139,882	289,899	103,928	983,741	16,926	254	37,776	-	-	-	-	2,572,406
Net receivables:												
Taxes	1,102,295	23,234	196,843	-	-	-	-	-	-	-	-	1,322,372
Accounts	894	1,730	-	-	905	-	-	-	-	-	-	3,529
Accrued interest	1,695	-	-	-	-	-	-	-	-	-	-	1,695
Intergovernmental	-	32,164	-	-	-	-	-	-	-	-	-	32,164
Interfund loan receivable	17,865	-	-	-	-	-	-	-	-	-	-	17,865
Materials and supply inventory	8,035	-	-	-	2,697	-	-	-	-	-	-	10,732
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-	213,399	-	-	14,755,140	-	-	-	14,968,539
OTHER DEBITS:												
Amount available in Debt Service Fund	-	-	-	-	-	-	-	-	-	114,128	-	114,128
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	-	2,601,945	-	2,601,945
Total assets and other debits	\$ 2,270,666	347,027	300,771	983,741	233,927	254	37,776	14,755,140	-	2,716,073	-	21,645,375

The notes to the financial statements are an integral part of this statement.

NEW MIAMI LOCAL SCHOOL DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2002

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types			Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	General Fixed Asset	Long-Term Debt	General			
										General	Long-Term Debt		
LIABILITIES, EQUITY AND OTHER CREDITS													
Accounts payable	\$ 17,402	664	-	100,393	229	-	6,395	-	-	-	-	-	125,083
Accrued wages and benefits	530,077	44,477	-	-	24,493	-	-	-	-	-	-	-	599,047
Interfund loans payable	-	9,865	-	-	8,000	-	-	-	-	-	-	-	17,865
Due to student groups	-	-	-	-	-	-	23,331	-	-	-	-	-	23,331
Deferred revenue	888,459	20,834	186,643	-	-	-	-	-	-	-	-	-	1,095,936
Capital lease payable	-	-	-	-	-	-	-	-	45,819	-	-	-	45,819
Pension obligation payable	89,190	-	-	-	17,398	-	-	-	34,596	-	-	-	141,184
Energy conservation notes payable	-	-	-	-	-	-	-	-	100,000	-	-	-	100,000
General obligation bonds payable	-	-	-	-	-	-	-	-	2,153,000	-	-	-	2,153,000
Compensated absences payable	-	-	-	-	5,153	-	-	-	382,658	-	-	-	387,811
Total liabilities	1,525,128	75,840	186,643	100,393	55,273	-	29,726	-	2,716,073	-	-	-	4,689,076
EQUITY AND OTHER CREDITS													
Investments in general fixed assets	-	-	-	-	-	-	-	14,755,140	-	-	-	-	14,755,140
Contributed capital	-	-	-	-	235,987	-	-	-	-	-	-	-	235,987
Retained earnings (deficit)	-	-	-	-	(57,333)	254	-	-	-	-	-	-	(57,079)
Fund balances:													
Reserved for:													
Encumbrances	6,869	2,884	-	147,901	-	-	-	-	-	-	-	-	157,654
Materials and supply inventory	8,035	-	-	-	-	-	-	-	-	-	-	-	8,035
Property tax advances	59,500	2,400	10,200	-	-	-	-	-	-	-	-	-	72,100
Unreserved - undesignated	671,134	265,903	103,928	735,447	-	-	8,050	-	-	-	-	-	1,784,462
Total equity and other credits	745,538	271,187	114,128	883,348	178,654	254	8,050	14,755,140	-	-	-	-	16,956,299
Total liabilities, equity and other credits	\$ 2,270,666	347,027	300,771	983,741	233,927	254	37,776	14,755,140	2,716,073	-	-	-	21,645,375

The notes to the financial statements are an integral part of this statement.

NEW MIAMI LOCAL SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and Changes in Fund
Balances - All Governmental Fund Types and Expendable Trust Fund
Year Ended June 30, 2002

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$ 1,214,458	19,423	141,998	-	-	1,375,879
Earnings on investments	41,224	-	-	61,283	-	102,507
Other local revenue	6,670	46,184	-	20,841	9,429	83,124
Intergovernmental	3,710,663	659,984	18,658	2,109,331	-	6,498,636
Total revenues	<u>4,973,015</u>	<u>725,591</u>	<u>160,656</u>	<u>2,191,455</u>	<u>9,429</u>	<u>8,060,146</u>
Expenditures:						
Instruction:						
Regular	2,767,802	278,592	-	319,323	-	3,365,717
Special	251,138	218,537	-	-	-	469,675
Other	28,174	-	-	-	-	28,174
Support services:						
Pupil	183,084	77,437	-	2,152	-	262,673
Instructional staff	198,962	26,289	-	73,918	-	299,169
General administration	52,956	-	-	-	-	52,956
School administration	637,378	21,401	2,473	57,301	-	718,553
Fiscal	152,682	-	-	10,915	-	163,597
Operations and maintenance	570,695	-	-	25,665	-	596,360
Pupil transportation	295,939	1,337	-	-	-	297,276
Community services	-	-	-	-	3,510	3,510
Extracurricular activities	69,456	61,574	-	-	-	131,030
Facilities acquisition and construction	-	-	-	7,208,781	-	7,208,781
Debt service:						
Principal	6,946	-	105,000	-	-	111,946
Interest	1,459	-	113,916	-	-	115,375
Total expenditures	<u>5,216,671</u>	<u>685,167</u>	<u>221,389</u>	<u>7,698,055</u>	<u>3,510</u>	<u>13,824,792</u>
Excess (deficit) revenues over (under) expenditures	(243,656)	40,424	(60,733)	(5,506,600)	5,919	(5,764,646)
Other financing sources (uses):						
Proceeds from capital lease	32,204	-	-	-	-	32,204
Operating transfers in	-	15,000	51,271	-	-	66,271
Operating transfers out	(86,271)	-	-	-	-	(86,271)
Other financing sources	34,245	-	-	-	800	35,045
Total other financing sources (uses)	<u>(19,822)</u>	<u>15,000</u>	<u>51,271</u>	<u>-</u>	<u>800</u>	<u>47,249</u>
Excess (deficit) revenues and other sources over (under) expenditures and other (uses)	(263,478)	55,424	(9,462)	(5,506,600)	6,719	(5,717,397)
Fund balance, beginning of year	1,009,016	215,763	123,590	6,389,948	1,331	7,739,648
Fund balance, end of year	\$ <u>745,538</u>	<u>271,187</u>	<u>114,128</u>	<u>883,348</u>	<u>8,050</u>	<u>2,022,251</u>

The notes to the financial statements are an integral part of this statement.

This Page is Intentionally Left Blank.

NEW MIAMI LOCAL SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget-Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund
Year Ended June 30, 2002

	General Fund			Special Revenue Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 1,269,003	1,269,003	-	20,023	20,023	-
Earnings on investments	39,633	39,633	-	-	-	-
Extracurricular activities	-	-	-	43,598	43,598	-
Intergovernmental - state and local	3,715,400	3,715,738	338	421,288	422,963	1,675
Intergovernmental - federal	-	-	-	229,859	229,859	-
Other revenue	12,102	12,102	-	856	856	-
Total revenues	<u>5,036,138</u>	<u>5,036,476</u>	<u>338</u>	<u>715,624</u>	<u>717,299</u>	<u>1,675</u>
Expenditures:						
Current:						
Instruction:						
Regular	2,942,522	2,755,181	187,341	487,555	294,294	193,261
Special	370,861	217,444	153,417	250,205	248,017	2,188
Other	28,174	28,174	-	-	-	-
Support services:						
Pupil	184,600	181,328	3,272	93,238	77,548	15,690
Instructional staff	240,380	193,943	46,437	50,943	31,523	19,420
General administration	82,422	51,589	30,833	-	-	-
School administration	668,671	633,167	35,504	25,221	21,765	3,456
Fiscal and business	206,990	163,735	43,255	-	-	-
Operations and maintenance	847,573	539,340	308,233	46,919	-	46,919
Pupil transportation	299,579	296,281	3,298	1,438	1,337	101
Community services	-	-	-	-	-	-
Extracurricular activities	74,191	69,566	4,625	67,352	63,596	3,756
Facilities acquisition and construction	-	-	-	-	-	-
Debt Service:						
Repayment of debt	-	-	-	-	-	-
Total expenditures	<u>5,945,963</u>	<u>5,129,748</u>	<u>816,215</u>	<u>1,022,871</u>	<u>738,080</u>	<u>284,791</u>
Excess (deficit) revenues over (under) expenditures	(909,825)	(93,272)	816,553	(307,247)	(20,781)	286,466
Other financing sources (uses):						
Operating transfers in	-	-	-	15,000	15,000	-
Operating transfers out	(86,271)	(86,271)	-	-	-	-
Advances in	-	-	-	-	-	-
Advances out	(675)	-	675	-	-	-
Proceeds from sale of bonds	-	-	-	-	-	-
Other financing sources (uses)	(281,501)	34,245	315,746	-	-	-
Total other financing sources (uses)	<u>(368,447)</u>	<u>(52,026)</u>	<u>316,421</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Excess (deficit) revenues and other sources over (under) expenditures and other (uses)	(1,278,272)	(145,298)	1,132,974	(292,247)	(5,781)	286,466
Fund balance, beginning of year	1,207,654	1,207,654		286,784	286,784	
Prior year encumbrances appropriated	70,618	70,618		5,463	5,463	
Fund balance, end of year	\$ -	<u>1,132,974</u>		-	<u>286,466</u>	

The notes to the financial statements are an integral part of this statement.

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
152,797	152,797	-	-	-	-	-	-	-
-	-	-	79,130	79,130	-	-	-	-
-	-	-	-	-	-	-	-	-
18,658	18,658	-	2,109,331	2,109,331	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	20,841	20,841	-	9,429	9,429	-
<u>171,455</u>	<u>171,455</u>	<u>-</u>	<u>2,209,302</u>	<u>2,209,302</u>	<u>-</u>	<u>9,429</u>	<u>9,429</u>	<u>-</u>
-	-	-	458,592	319,613	138,979	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	4,119	2,152	1,967	-	-	-
-	-	-	77,246	76,783	463	-	-	-
-	-	-	-	-	-	-	-	-
3,110	2,473	637	76,867	59,378	17,489	-	-	-
-	-	-	11,150	10,915	235	-	-	-
-	-	-	26,681	25,665	1,016	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	45,979	30,239	15,740	18,909	4,463	14,446
-	-	-	-	-	-	-	-	-
-	-	-	9,140,936	8,511,978	628,958	-	-	-
<u>322,205</u>	<u>218,916</u>	<u>103,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>325,315</u>	<u>221,389</u>	<u>103,926</u>	<u>9,841,570</u>	<u>9,036,723</u>	<u>804,847</u>	<u>18,909</u>	<u>4,463</u>	<u>14,446</u>
(153,860)	(49,934)	103,926	(7,632,268)	(6,827,421)	804,847	(9,480)	4,966	(14,446)
51,271	51,271	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	800	800	-
<u>51,271</u>	<u>51,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>800</u>	<u>800</u>	<u>-</u>
(102,589)	1,337	103,926	(7,632,268)	(6,827,421)	804,847	(8,680)	5,766	14,446
102,589	102,589	-	7,382,148	7,382,148	-	8,680	8,680	-
-	-	-	250,120	250,120	-	-	-	-
<u>-</u>	<u>103,926</u>	<u>-</u>	<u>-</u>	<u>804,847</u>	<u>-</u>	<u>-</u>	<u>14,446</u>	<u>-</u>

NEW MIAMI LOCAL SCHOOL DISTRICT

Combined Statement of Revenues, Expenses and Changes in Fund Equity All Proprietary Fund Types

Year Ended June 30, 2002

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Operating revenues:			
Charges for services	\$ 183,754	-	183,754
Other operating revenues	-	1,120	1,120
Total operating revenues	<u>183,754</u>	<u>1,120</u>	<u>184,874</u>
Operating expenses:			
Personnel services	196,707	-	196,707
Contractual services	338	911	1,249
Materials and supplies	155,830	-	155,830
Depreciation	23,711	-	23,711
Total operating expenses	<u>376,586</u>	<u>911</u>	<u>377,497</u>
Operating income (loss)	(192,832)	209	(192,623)
Nonoperating revenues (losses):			
Interest income	20	-	20
Federal and state subsidies	132,919	-	132,919
Federal donated commodities	6,929	-	6,929
Total nonoperating revenues	<u>139,868</u>	<u>-</u>	<u>139,868</u>
Net income (loss) before transfers	(52,964)	209	(52,755)
Operating transfers in	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Net income (loss)	(32,964)	209	(32,755)
Retained earnings (deficit), beginning of year	<u>(24,369)</u>	<u>45</u>	<u>(24,324)</u>
Retained earnings (deficit), end of year	<u>(57,333)</u>	<u>254</u>	<u>(57,079)</u>
Contributed capital at beginning of year	-	-	-
Additions to contributed capital	<u>235,987</u>	<u>-</u>	<u>235,987</u>
Contributed capital at end of year	<u>235,987</u>	<u>-</u>	<u>235,987</u>
Total fund equity at end of year	\$ <u>178,654</u>	<u>254</u>	<u>178,908</u>

The notes to the financial statements are an integral part of this statement.

NEW MIAMI LOCAL SCHOOL DISTRICT

Combined Statement of Cash Flows - All Proprietary Fund Types

Year Ended June 30, 2002

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
Cash flows from operating activities:			
Cash received from charges for service	\$ 182,849	-	182,849
Cash received from other operations	-	1,120	1,120
Cash payments for personal services	(194,075)	-	(194,075)
Cash payments for contract services	(1,285)	(911)	(2,196)
Cash payments for supplies and materials	<u>(148,822)</u>	<u>-</u>	<u>(148,822)</u>
Net cash provided (used) by operating activities	<u>(161,333)</u>	<u>209</u>	<u>(161,124)</u>
Cash flows from noncapital financing activities:			
Operating transfers	20,000	-	20,000
Cash received from operating grants	<u>132,919</u>	<u>-</u>	<u>132,919</u>
Net cash provided by noncapital financing activities	<u>152,919</u>	<u>-</u>	<u>152,919</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(1,123)</u>	<u>-</u>	<u>(1,123)</u>
Cash flows from investing activities:			
Interest received	<u>20</u>	<u>-</u>	<u>20</u>
Net cash provided by investing activities	<u>20</u>	<u>-</u>	<u>20</u>
Net change in cash	(9,517)	209	(9,308)
Cash, beginning of year	<u>26,443</u>	<u>45</u>	<u>26,488</u>
Cash, end of year	<u>16,926</u>	<u>254</u>	<u>17,180</u>
Reconciliation of operating income (loss) to to net cash provided (used) by operating activities:			
Operating income (loss)	(192,832)	209	(192,623)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Donated commodities	6,929	-	6,929
Depreciation	23,711	-	23,711
Changes in assets and liabilities:			
Accounts receivable	(905)	-	(905)
Inventory	(1,097)	-	(1,097)
Accounts payable	229	-	229
Compensated absences	(145)	-	(145)
Accrued wages and benefits	435	-	435
Pension obligation payable	<u>2,342</u>	<u>-</u>	<u>2,342</u>
Net cash provided (used) by operating activities	\$ <u>(161,333)</u>	<u>209</u>	<u>(161,124)</u>

The notes to the financial statements are an integral part of this statement.

NEW MIAMI LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
Year Ended June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

New Miami Local School District (the "School District") provides education for New Miami, City View Heights, Overpeck and Williamsdale. The School District was chartered in 1937 and consisted of one elementary school, which housed grades 1-9. The high school students went to Seven Mile for classes until September 1960 when New Miami High School opened for grades 9-12. The New Miami Junior School was opened in September 1969 for grades 6-8. The School District currently operates one elementary school (K-6) and one junior-senior high school (7-12) with a total enrollment of approximately 970 students. The School District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the New Miami Local School District, this includes general operations, food service, and student related activities of the School District.

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

The School District is associated with three organizations; two of which are defined as a jointly governed organization and one is an insurance purchasing pool. These organizations include the Butler County Joint Vocational School, the Southwestern Ohio Computer Association, and the Butler County Health Plan. These organizations are presented in Notes 14 and 15 to the general purpose financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

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

Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

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

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Fund - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types:

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

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

Internal Service Fund – Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the School District is sixty days after year end.

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

On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. In applying the susceptible to the accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, taxpayer assessed income taxes, interest, and accounts and grants.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2002, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2003 operations, have been recorded 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 the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized in the accounting period in which they are earned, and 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 donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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 appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. 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 Butler County Budget Commission for rate determination.

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 School District must revise its budget so that total contemplated expenditures from any fund during the ensuing 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 is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

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 must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, 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 the level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 2002, investments were limited to certificates of deposit.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those other funds individually authorized by Board resolution. Interest earnings are allocated to these funds based on average monthly cash balance.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

Inventory

Inventories of governmental funds are stated at cost while inventories of the enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of the enterprise funds consist of donated food, purchased food, and non-food supplies held for resale and are expensed when used.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two hundred dollars. The School District does not possess infrastructure.

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. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to ten years.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after twenty years of service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after fiscal year-end are considered not to have used current available financial resources. Bonds and long-term loans are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Estimates

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

Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials, and property tax advances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes.

Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. ACCOUNTABILITY

At June 30, 2002, the Food Services Fund had a deficit in retained earnings of \$36,291. This deficit was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

3. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)-All Governmental Fund Types and Expendable Trust 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 are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$ (263,478)	55,424	(9,462)	(5,506,600)	6,719
Revenue accruals	63,461	(8,292)	10,799	17,847	-
Expenditure accruals	93,830	(49,472)	-	(1,159,771)	(953)
Other sources and uses	(32,204)	-	-	-	-
Encumbrances	(6,907)	(3,441)	-	(178,897)	-
Budget Basis	<u>\$ (145,298)</u>	<u>(5,781)</u>	<u>1,337</u>	<u>(6,827,421)</u>	<u>5,766</u>

4. DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 are permitted to 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. 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; and
6. The State Treasurer's investment pool (STAROhio).

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 School 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$2,572,406 and the bank balance was \$2,815,137. Of the bank balance, \$200,000 was covered by federal depository insurance and \$2,615,137 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging financial institution's trust department, but not in the District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

5. INCOME TAXES

Effective in 1990, the voters of the School District passed a 1% school income tax on wages earned by residents of the School District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ended June 30, 2002, the School District recorded income tax revenue of \$408,803 in the General Fund, of which \$154,336 is recorded as a receivable at June 30, 2002.

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 2000. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Personal property taxes are levied after April 1 on the value as of December 31 of the current year. Tangible personal property assessments are 25% of true 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. Tangible personal property taxes paid 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.

The School District receives property taxes from Butler County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002 are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2002, was \$59,500 in the General Fund, \$2,400 in the Special Revenue Funds and \$10,200 in the Debt Service Fund.

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

	<u>2001 Second- Half Collections</u>		<u>2002 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 35,566,980	77.58%	34,327,940	76.58%
Tangible Personal Property	<u>10,278,957</u>	22.42%	<u>10,498,041</u>	23.42%
Total Assessed Value	\$ <u><u>45,845,937</u></u>	100.00%	<u><u>44,825,981</u></u>	100.00%

7. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2002 follows:

Furniture and equipment	\$ <u>237,110</u>
Less accumulated depreciation	<u>23,711</u>
Net fixed assets	\$ <u><u>213,399</u></u>

During the year ended June 30, 2002, food service equipment totaling \$235,987 was purchased through a capital projects fund. Contributed capital has been recorded in the Food Service enterprise fund for this equipment.

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 7/1/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2002</u>
Land	\$ 442,444	-	-	442,444
Buildings and improvements	2,290,000	-	-	2,290,000
Furniture, fixtures, and equipment	1,022,393	860,799	(690,988)	1,192,204
Construction in progress	<u>3,857,698</u>	<u>6,972,794</u>	<u>-</u>	<u>10,830,492</u>
Total general fixed assets	\$ <u><u>7,612,535</u></u>	<u><u>7,833,593</u></u>	<u><u>(690,988)</u></u>	<u><u>14,755,140</u></u>

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District maintained comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

For fiscal year 2002, the School District participated in the Butler County Health Trust (the Trust), a group insurance purchasing pool, in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

9. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were approximately \$95,000, \$84,000, and \$76,000 respectively; 50% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

State Teachers Retirement System

The School 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2002, 2001, and 2000 were approximately \$399,000, \$389,000, and \$385,000, respectively; 83% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

Social Security System

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002 members of the Board of Education have elected social security. The School District's liability is 6.2% of wages paid.

10. POSTEMPLOYMENT BENEFITS

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

STRS 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 shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2001, the board allocated employer contributions equal to 4.50% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$128,000 during fiscal year 2002. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.256 billion at June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were \$300.8 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 9.80% 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 2002, the minimum pay has been established at \$12,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2001 were \$161.4 million and the target level was \$242.2 million. At June 30, 2001, SERS' net assets available for payment of health care benefits was \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, was approximately \$67,000 during the 2002 fiscal year.

11. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to maximum of 200 days for classified employees and teachers, and 253 days for administrators. Upon retirement, payment is made for 25% of accrued, but unused sick leave up to a maximum of 50 days for classified employees and 45 days for teachers and administrators.

12. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Principal Outstanding 7/1/01	Additions	Deletions	Principal Outstanding 6/30/02
Energy conservation notes - 1993	\$ 123,000	-	(40,000)	83,000
Energy conservation notes - 1994	22,000	-	(5,000)	17,000
General obligation bonds	2,213,000	-	(60,000)	2,153,000
Capital leases	20,561	32,204	(6,946)	45,819
Pension obligation	28,392	34,596	(28,392)	34,596
Compensated absences	<u>374,056</u>	<u>8,602</u>	<u>-</u>	<u>382,658</u>
Total general long-term obligations	\$ <u>2,781,009</u>	<u>75,402</u>	<u>(140,338)</u>	<u>2,716,073</u>

House Bill 264, Energy Conversation Notes - The School District issued notes in 1993 and 1994 to fund energy conserving renovation projects. The notes mature on December 1, 2003 and December 1, 2004, respectively and bear interest at 5% and 5.75%, respectively.

General Obligation Bonds - On July 14, 2000, the School District issued voted general obligations bonds for the purpose of construction of a new building and improvements to the junior/senior high school building. The bonds were issued at an interest rate of 4.55% for a twenty-two year period with final maturity at December 1, 2022. The bonds will be retired from the debt service fund.

The School District's voted legal debt margin was \$1,881,338 with an unvoted debt margin of \$44,826 at June 30, 2002.

Principal and interest requirements to retire energy conservation notes outstanding at June 30, 2002, are:

Fiscal Year Ending June 30,		Principal	Interest	Total
2003	\$	45,000	3,984	48,984
2004		48,000	1,621	49,621
2005		<u>7,000</u>	<u>201</u>	<u>7,201</u>
Total	\$	<u>100,000</u>	<u>5,806</u>	<u>105,806</u>

Principal and interest requirements to retire general obligation bonds at June 30, 2002 are:

Fiscal Year Ending June 30,		Principal	Interest	Total
2003	\$	65,000	106,280	171,280
2004		70,000	103,290	173,290
2005		75,000	100,035	175,035
2006		80,000	96,510	176,510
2007		85,000	92,710	177,710
2008-2012		434,518	471,807	906,325
2013-2017		363,482	590,318	953,800
2018-2022		805,000	190,400	995,400
2023		<u>175,000</u>	<u>9,800</u>	<u>184,800</u>
Total	\$	<u>2,153,000</u>	<u>1,761,150</u>	<u>3,914,150</u>

13. CAPITALIZED LEASE

The School District is obligated under a lease accounted for as a capital lease. The leased assets are accounted for in the General Fixed Asset Account Group and related obligations are recorded in the General Long-Term Debt Account Group. Assets under capital lease totaled \$52,000 at June 30, 2002. The following is a schedule of future minimum lease payments under capital leases, with the net present value of the minimum lease payments as of June 30, 2002.

Year Ending June 30	
2003	\$ 19,440
2004	19,440
2005	<u>11,340</u>
Minimum lease payments	50,220
Less: Amount representing interest	<u>4,401</u>
Present value of minimum lease payments	\$ <u>45,819</u>

14. INSURANCE PURCHASING POOL

Butler County Health Plan

The School District participates in the Butler County Health Plan (BCHP), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. Financial information can be obtained from BCHP at P. O. Box 526, Middletown, Ohio 45042.

15. JOINTLY GOVERNED ORGANIZATIONS

Butler County Joint Vocational School District

The Butler County Joint Vocational School District (BCJVSD), a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school districts' elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. BCJVSD was formed for the purpose of providing vocational education opportunities to the students of the member school districts which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for the Joint Vocational School. To obtain financial information, write to the Butler County Joint Vocational School, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

Southwestern Ohio Computer Association

The Southwestern Ohio Computer Association (SWOCA) 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 member schools of the three county consortium supports SWOCA based upon per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. To obtain financial information, write to SWOCA, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

16. SEGMENT INFORMATION FOR ENTERPRISE FUND

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

	Food <u>Services</u>	Uniform School <u>Supply</u>	<u>Total</u>
Operating revenue	\$ 162,141	21,613	183,754
Operating expenses	324,882	27,993	352,875
Depreciation	23,711	-	23,711
Operating income (loss)	(186,452)	(6,380)	(192,832)
Donated commodities	6,929	-	6,929
Operating grants	132,919	-	132,919
Interest income	20	-	20
Operating transfers in	12,000	8,000	20,000
Net income (loss)	(34,584)	1,620	(32,964)
Net working capital	(36,291)	1,546	(34,745)
Total assets	224,381	9,546	233,927
Total equity	\$ 177,108	1,546	178,654

17. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

Litigation

The School District is not party to legal proceedings.

18. REQUIRED SET-ASIDES

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

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

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2001	\$	(10,158)	-
Current year set-aside requirement		104,795	104,795
Less qualifying disbursements and offsets		<u>(127,957)</u>	<u>(123,938)</u>
Total		<u>(33,320)</u>	<u>(19,143)</u>
 Balance carried to FY2003		 <u>(33,320)</u>	 <u>-</u>

Since the School District had offsets and qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, these extra amounts may be used to reduce the set aside requirements of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirements of future years.

19. SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order. The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. On December 11, 2002, the Supreme Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance.

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

NEW MIAMI LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings

Year Ended June 30, 2002

The prior audit disclosed no instances of noncompliance that were required to be reported in accordance with *Government Auditing Standards* or noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over financial reporting or internal controls over compliance were reported in the prior year.

NEW MIAMI LOCAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
(Passed through Ohio Department of Education)				
Nutrition Cluster:				
Food Distribution Program	n/a	10.550	\$ 6,929	6,929
National School Breakfast Program	05-PU	10.553	24,949	24,949
National School Lunch Program	04-PU	10.555	<u>98,545</u>	<u>98,545</u>
Total U.S. Department of Agriculture			<u>130,423</u>	<u>130,423</u>
<u>U.S. Department of Education:</u>				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education Grants to States:				
IDEA Part B	6B-SF	84.027	57,631	67,755
Preschool Grants	PG-S1	84.173	<u>1,896</u>	<u>3,581</u>
			<u>59,527</u>	<u>71,336</u>
Grants to Local Education Agencies (ESEA Title I)	C1-S1	84.010	121,130	169,060
Safe and Drug Free Schools	DR-S1	84.186	3,265	2,467
Goals 2000	G2-S2	84.276	2,500	14,091
Eisenhower Professional Development Grant	MS-S1	84.281	8,025	5,879
Innovative Education Program Strategy - Title VI	C2-S1	84.298	1,337	-
Technology Literacy Challenge Fund	TF-41/TF-42	84.318	25,000	25,257
Class Size Reduction	CR-S1	84.340	21,827	21,827
Technology Infusion Grant	AT-S1	84.352A	<u>9,800</u>	<u>9,242</u>
Total U.S. Department of Education			<u>252,411</u>	<u>319,159</u>
Total Federal Awards			\$ <u>382,834</u>	<u>449,582</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2002, the School District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
New Miami Local School District:

We have audited the general purpose financial statements of New Miami Local School District, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 5, 2002, except for Note 19, as to which the date is December 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 5, 2002
except for Note 19, as to
which the date is
December 11, 2002

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

To the Board of Education
New Miami Local School District:

Compliance

We have audited the compliance of New Miami Local School District, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. New Miami Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, New Miami Local School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of New Miami Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered New Miami Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Cook, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 5, 2002
except for Note 19, as to
which the date is
December 11, 2002

NEW MIAMI LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2002

Section I - Summary of Auditors' Results

Financial Statements

Type of report issued on financial statements:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	none
Identification of major programs:	
<i>CFDA 84.010 ESEA (Title I)</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

NEW MIAMI LOCAL SCHOOL DISTRICT

BUTLER 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
JANUARY 9, 2003**