



**Auditor of State
Betty Montgomery**

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Balance Sheet - All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - All Governmental Fund Types	10
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type	14
Combined Statement of Cash Flows - Proprietary Fund Type	15
Notes to the General-Purpose Financial Statements	17
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	45
Schedule of Prior Audit Findings.....	47

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

New Riegel Local School District
Seneca County
44 North Perry Street
New Riegel, Ohio 44853-0207

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the New Riegel Local School District, Seneca County, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the 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 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the New Riegel Local School District, Seneca County, as of June 30, 2003, 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.

As discussed in Note 3, during the year ended June 30, 2003 the District changed its capital assets threshold policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2005, 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 other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

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 3, 2005

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**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets:		
Equity in pooled cash and cash equivalents	\$ 546,631	\$ 211,758
Cash with fiscal agent		29
Receivables (net of allowances of uncollectibles):		
Taxes - current and delinquent	714,181	14,034
Accounts	445	837
Accrued interest	10,849	
Interfund loan receivable	7,098	
Due from other governments		2,098
Materials and supplies inventory	3,740	
Prepayments	17,175	
Restricted assets:		
Equity in pooled cash and cash equivalents	74,971	
Property, plant and equipment (net of accumulated depreciation where applicable)		
Other Debits:		
Amount available in debt service fund		
Amount to be provided for retirement of general long-term obligations		
Total assets and other debits	\$ 1,375,090	\$ 228,756

Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
\$ 52,031	\$ 915,994	\$ 25,210	\$ 29,979			\$ 1,781,603
125,196						29
		148	3,526			853,411
						4,956
						10,849
						7,098
						2,098
		3,726				7,466
						17,175
						74,971
		139,284		\$ 13,689,742		13,829,026
					\$ 60,661	60,661
					1,217,840	1,217,840
\$ 177,227	\$ 915,994	\$ 168,368	\$ 33,505	\$ 13,689,742	\$ 1,278,501	\$ 17,867,183

(Continued)

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003
(Continued)

	Governmental Fund Types	
	General	Special Revenue
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
Accounts payable	\$ 288	\$ 816
Contracts payable		
Retainage payable.		
Accrued wages and benefits	248,584	576
Compensated absences payable	8,458	7,322
Pension obligation payable	42,991	
Interfund loan payable		2,098
Deferred revenue	599,033	13,067
Due to other governments	11,322	236
Due to students		
Bond anticipation notes payable		
General obligation bonds payable		
Energy conservation loan payable		
Total Liabilities	910,676	24,115
Equity and other credits:		
Investment in general fixed assets		
Retained earnings: unreserved		
Fund balances:		
Reserved for encumbrances	7,217	4,956
Reserved for materials and supplies inventory	3,740	
Reserved for prepayments	17,175	
Reserved for tax revenue unavailable for appropriation	43,567	967
Reserved for textbooks	29,017	
Reserved for school bus purchases	45,954	
Unreserved-undesignated	317,744	198,718
Total equity and other credits	464,414	204,641
Total liabilities, equity, and other credits	\$ 1,375,090	\$ 228,756

THE NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
		\$ 156				\$ 1,260
	\$ 147,063					147,063
		4,358				-
		3,309			\$ 179,161	253,518
		8,266			31,279	198,250
			\$ 5,000			82,536
116,566						7,098
		245				728,666
			28,505			11,803
					125,000	28,505
					930,000	125,000
					13,061	930,000
						13,061
<u>116,566</u>	<u>147,063</u>	<u>16,334</u>	<u>33,505</u>		<u>1,278,501</u>	<u>2,526,760</u>
				\$ 13,689,742		13,689,742
		152,034				152,034
	258,062					270,235
						3,740
						17,175
8,630						53,164
						29,017
						45,954
<u>52,031</u>	<u>510,869</u>					<u>1,079,362</u>
<u>60,661</u>	<u>768,931</u>	<u>152,034</u>		<u>13,689,742</u>		<u>15,340,423</u>
<u>\$ 177,227</u>	<u>\$ 915,994</u>	<u>\$ 168,368</u>	<u>\$ 33,505</u>	<u>\$ 13,689,742</u>	<u>\$ 1,278,501</u>	<u>\$ 17,867,183</u>

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
From local sources:		
Taxes	\$ 875,878	\$ 13,733
Tuition		1,978
Earnings on investments	16,141	554
Extracurricular	1,826	59,114
Other local revenues	20,170	3,190
Intergovernmental - State	2,179,325	26,371
Intergovernmental - Federal		142,837
Total revenue	<u>3,093,340</u>	<u>247,777</u>
Expenditures:		
Current:		
Instruction:		
Regular	1,396,228	59,657
Special	198,104	90,441
Vocational	60,042	
Support services:		
Pupil	112,112	12,021
Instructional staff	83,539	6,185
Board of Education	14,118	-
Administration	257,291	760
Fiscal	140,010	792
Operations and maintenance	254,689	10,203
Pupil transportation	168,423	11,449
Extracurricular activities	78,457	56,609
Facilities acquisition and construction	15,750	
Debt service:		
Principal retirement		
Interest and fiscal charges		
Total expenditures	<u>2,778,763</u>	<u>248,117</u>
Excess of revenues over (under) expenditures	<u>314,577</u>	<u>(340)</u>
Other financing sources (uses):		
Operating transfers in		36,637
Operating transfers out	(190,480)	
Proceeds from sale of assets		
Proceeds from sale of notes		
Total other financing sources (uses)	<u>(190,480)</u>	<u>36,637</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	124,097	36,297
Fund balances, July 1	340,836	168,344
Decrease in reserve for inventory	(519)	
Fund balances, June 30	<u><u>\$ 464,414</u></u>	<u><u>\$ 204,641</u></u>

THE NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Governmental Fund Types		
Debt Service	Capital Projects	Total (Memorandum Only)
\$ 52,620	\$ 69,275	\$ 1,011,506
	36,039	1,978
		52,734
		60,940
		23,360
14,372	750,504	2,970,572
		142,837
<u>66,992</u>	<u>855,818</u>	<u>4,263,927</u>
	43,765	1,499,650
		288,545
		60,042
		124,133
		89,724
		14,118
	436	258,487
2,545		143,347
	40,508	305,400
		179,872
		135,066
	5,143,622	5,159,372
42,612	190,000	232,612
47,913	4,275	52,188
<u>93,070</u>	<u>5,422,606</u>	<u>8,542,556</u>
<u>(26,078)</u>	<u>(4,566,788)</u>	<u>(4,278,629)</u>
19,150	135,000	190,787
		(190,480)
	94,209	94,209
	125,000	125,000
<u>19,150</u>	<u>354,209</u>	<u>219,516</u>
(6,928)	(4,212,579)	(4,059,113)
67,589	4,981,510	5,558,279
		(519)
<u>\$ 60,661</u>	<u>\$ 768,931</u>	<u>\$ 1,498,647</u>

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes	\$ 814,700	\$ 878,816	\$ 64,116
Tuition			
Earnings on investments	22,000	15,882	(6,118)
Extracurricular	10,000	1,833	(8,167)
Other local revenues	19,800	19,737	(63)
Intergovernmental - State	1,978,000	2,179,325	201,325
Intergovernmental - Federal			
Total revenues	<u>2,844,500</u>	<u>3,095,593</u>	<u>251,093</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,454,494	1,387,872	66,622
Special	219,820	197,106	22,714
Vocational	60,610	59,617	993
Support services:			
Pupil	114,950	113,193	1,757
Instructional staff	110,750	85,051	25,699
Board of Education	19,600	13,776	5,824
Administration	277,011	259,070	17,941
Fiscal	140,100	139,183	917
Operations and maintenance	271,876	266,361	5,515
Pupil transportation	225,980	169,898	56,082
Extracurricular activities	80,590	78,336	2,254
Facilities acquisition and construction	17,000	15,750	1,250
Debt service:			
Principal retirement	17,612	17,612	
Interest and fiscal charges	2,588	1,538	1,050
Total expenditures	<u>3,012,981</u>	<u>2,804,363</u>	<u>208,618</u>
Excess of revenues over (under) expenditures	<u>(168,481)</u>	<u>291,230</u>	<u>459,711</u>
Other financing sources (uses):			
Advances in		11,500	11,500
Advances out	(7,100)	(7,098)	2
Operating transfers in		29,017	29,017
Operating transfers out	(235,000)	(200,347)	34,653
Proceeds from sale of notes			
Refund of prior year expenditure		55	55
Proceeds from sale of assets			
Total other financing sources (uses)	<u>(242,100)</u>	<u>(166,873)</u>	<u>75,227</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(410,581)</u>	<u>124,357</u>	<u>534,938</u>
Fund balances, July 1	483,658	483,658	
Prior year encumbrances appropriated	6,082	6,082	
Fund balances, June 30	<u><u>\$ 79,159</u></u>	<u><u>\$ 614,097</u></u>	<u><u>\$ 534,938</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 13,025	\$ 13,895	\$ 870	\$ 114,200	\$ 123,096	\$ 8,896
2,500	1,978	(522)			
800	554	(246)			
63,500	58,277	(5,223)			
1,500	3,190	1,690			
26,250	26,370	120	12,000	14,372	2,372
139,711	137,614	(2,097)			
<u>247,286</u>	<u>241,878</u>	<u>(5,408)</u>	<u>126,200</u>	<u>137,468</u>	<u>11,268</u>
160,590	63,589	97,001			
90,147	90,147				
12,393	12,393				
3,806	3,749	57			
500	500				
1,000	787	213	5,000	2,545	2,455
51,136	10,205	40,931			
4,500	3,851	649			
84,041	58,602	25,439			
			215,000	215,000	
			120,000	50,650	69,350
<u>408,113</u>	<u>243,823</u>	<u>164,290</u>	<u>340,000</u>	<u>268,195</u>	<u>71,805</u>
<u>(160,827)</u>	<u>(1,945)</u>	<u>158,882</u>	<u>(213,800)</u>	<u>(130,727)</u>	<u>83,073</u>
	2,098	2,098			
	(7,500)	(7,500)			
37,000	36,637	(363)			
			160,000	125,000	(35,000)
50	507	457			
<u>37,050</u>	<u>31,742</u>	<u>(5,308)</u>	<u>160,000</u>	<u>125,000</u>	<u>(35,000)</u>
(123,777)	29,797	153,574	(53,800)	(5,727)	48,073
168,688	168,688		57,758	57,758	
7,501	7,501				
<u>\$ 52,412</u>	<u>\$ 205,986</u>	<u>\$ 153,574</u>	<u>\$ 3,958</u>	<u>\$ 52,031</u>	<u>\$ 48,073</u>

(Continued)

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Capital Projects		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Taxes			
Tuition			
Earnings on investments	\$ 52,000	\$ 36,039	\$ (15,961)
Extracurricular			
Other local revenues			
Intergovernmental - State	917,860	779,320	(138,540)
Intergovernmental - Federal			
Total revenues	<u>969,860</u>	<u>815,359</u>	<u>(154,501)</u>
Expenditures:			
Current:			
Instruction:			
Regular	43,860	43,782	78
Special			
Vocational			
Support services:			
Pupil			
Instructional staff			
Board of Education			
Administration	500	436	64
Fiscal			
Operations and maintenance	41,000	40,507	493
Pupil transportation			
Extracurricular activities			
Facilities acquisition and construction	6,333,875	5,676,286	657,589
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>6,419,235</u>	<u>5,761,011</u>	<u>658,224</u>
Excess of revenues over (under) expenditures	<u>(5,449,375)</u>	<u>(4,945,652)</u>	<u>503,723</u>
Other financing sources (uses):			
Advances in			
Advances out			
Operating transfers in	160,000	135,000	(25,000)
Operating transfers out			
Proceeds from sale of notes			
Refund of prior year expenditure			
Proceeds from sale of assets	90,000	94,209	4,209
Total other financing sources (uses)	<u>250,000</u>	<u>229,209</u>	<u>(20,791)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(5,199,375)</u>	<u>(4,716,443)</u>	<u>482,932</u>
Fund balances, July 1	482,937	482,937	
Prior year encumbrances appropriated	4,744,375	4,744,375	
Fund balances, June 30	<u><u>\$ 27,937</u></u>	<u><u>\$ 510,869</u></u>	<u><u>\$ 482,932</u></u>

THE NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 941,925	\$ 1,015,807	\$ 73,882
2,500	1,978	(522)
74,800	52,475	(22,325)
73,500	60,110	(13,390)
21,300	22,927	1,627
2,934,110	2,999,387	65,277
139,711	137,614	(2,097)
<u>4,187,846</u>	<u>4,290,298</u>	<u>102,452</u>
1,658,944	1,495,243	163,701
309,967	287,253	22,714
60,610	59,617	993
127,343	125,586	1,757
114,556	88,800	25,756
19,600	13,776	5,824
278,011	260,006	18,005
146,100	142,515	3,585
364,012	317,073	46,939
230,480	173,749	56,731
164,631	136,938	27,693
6,350,875	5,692,036	658,839
232,612	232,612	
122,588	52,188	70,400
<u>10,180,329</u>	<u>9,077,392</u>	<u>1,102,937</u>
<u>(5,992,483)</u>	<u>(4,787,094)</u>	<u>1,205,389</u>
	13,598	13,598
(7,100)	(14,598)	(7,498)
197,000	200,654	3,654
(235,000)	(200,347)	34,653
160,000	125,000	(35,000)
50	562	512
90,000	94,209	4,209
<u>204,950</u>	<u>219,078</u>	<u>14,128</u>
(5,787,533)	(4,568,016)	1,219,517
1,193,041	1,193,041	
4,757,958	4,757,958	
<u>\$ 163,466</u>	<u>\$ 1,382,983</u>	<u>\$ 1,219,517</u>

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type
	Enterprise
Operating revenues:	
Tuition and fees	\$ 17,126
Sales/charges for services	81,485
Total operating revenues	98,611
Operating expenses:	
Personal services	51,852
Contract services	1,199
Materials and supplies	75,065
Depreciation	3,571
Other operating expenses	150
Total operating expenses	131,837
Operating loss	(33,226)
Nonoperating revenues:	
Operating grants	13,726
Federal commodities	18,102
Interest revenue	171
Total nonoperating revenues	31,999
Net loss before capital contributions and operating transfers	(1,227)
Capital contributions	142,855
Operating transfers out	(307)
Net income	141,321
Retained earnings (restated), July 1	10,713
Retained earnings, June 30	\$ 152,034

THE NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type
	Enterprise
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 17,016
Cash received from sales/service charges	81,508
Cash payments for personal services	(52,294)
Cash payments for contract services	(1,199)
Cash payments for materials and supplies	(59,590)
Cash payments for other operating expenses	(150)
Net cash used in operating activities	(14,709)
Cash flows from noncapital financing activities:	
Cash used for operating transfers	(307)
Cash received from operating grants	13,726
Net cash provided by noncapital financing activities	13,419
Cash flows from investing activities:	
Interest received	171
Net cash provided by investing activities	171
Net decrease in cash and cash equivalents	(1,119)
Cash and cash equivalents at beginning of year	26,329
Cash and cash equivalents at end of year	\$ 25,210
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (33,226)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,571
Federal donated commodities	18,102
Changes in assets and liabilities:	
Increase in materials and supplies inventory	(612)
Increase in accounts receivable	(87)
Increase in accounts payable	156
Decrease in accrued wages and benefits	(1,520)
Increase in compensated absences payable	354
Increase in due to other governments	1
Increase in pension obligation payable	723
Decrease in deferred revenue	(2,171)
Net cash used in operating activities	\$ (14,709)

THE NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The New Riegel Local School District (the District) is located in Seneca County and encompasses the Village of New Riegel. The District serves an area of approximately 30 square miles.

The District was established in 1841 through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 616th largest by enrollment among the 740 public and community school districts in the state and 6th in Seneca County. It currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 33 non-certified and 36 certified employees to provide services to 477 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". When applying GASB Statement No. 14, management has considered all potential component units.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the District's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (Association)

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts - Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to § 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association. Refer to Note 14 for further information on this public entity risk pool.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. 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. Refer to Note 14 for further information on this group rating plan.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Vanguard-Sentinel Career Centers

The Vanguard-Sentinel Career Centers are 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 boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Vanguard-Sentinel Career Centers, Jay Valesek, who serves as Treasurer, at 1306 Cedar Street, Fremont, Ohio 43420.

Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of twenty-six school districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consist of one elected representative of each county, the superintendent of the fiscal agent, and two non-voting members (administrator and fiscal officer). Members of the Board serve staggered two-year terms. The District paid \$22,924 during fiscal year 2003 for natural gas. Financial information is available from the Erie Ottawa Educational Service Center (fiscal agent), at 2900 S. Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

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

Special Revenue Funds - The 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 expenditures 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 debt principal, interest, and related costs.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body 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 (b) where the governing body has 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.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Agency Funds - The agency funds are used to account for assets held by the District as an agent for individual, private organizations, other governments, or other funds.

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 group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

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

C. Measurement Focus/Basis of Accounting

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

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2003, and which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from income taxes is recognized when the underlying exchange has occurred and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes or income taxes.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 is as follows:

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the 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 year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations 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. Although the legal level of budgetary control was established at the fund level of expenditures for all funds, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures for these funds.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003. The amounts reported in the budgetary statement reflect the original appropriations plus all amendments legally enacted by the Board prior to June 30, 2003.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level of budgetary controls.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 18 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 15 discloses the encumbrances outstanding for the enterprise funds at year end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 combined balance sheet.

During fiscal year 2003, investments were limited to investments in the State Asset Treasury Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2003 amounted to \$16,141, which includes \$8,665 assigned from other District funds.

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 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.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

G. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. During fiscal year 2003, the District increased its capitalization threshold from \$500 to \$2,500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds is stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over an estimated useful life of five to twenty years.

I. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief

Special Revenue Funds

Classroom Facilities Maintenance Fund – State Property Tax Relief

Debt Service Fund

State Property Tax Relief

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Non-Reimbursable Grants

Special Revenue Funds

Management Information Systems

Title I

Title VI

Title VI-B

Drug Free Grant

SchoolNet Professional Development

Ohio Reads

Safe School Helpline

Classroom Reduction

Network Connectivity

REAP

Title II D

Assisted Technology Infusion

Capital Projects Fund

Technology Equity

Classroom Facilities

Interactive Video Distance Learning

Reimbursable Grants

Enterprise Funds

National School Lunch Program

Government Donated Commodities

Grants and entitlements amounted to approximately 73 percent of the District's operating revenue during the 2003 fiscal year for all governmental funds.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

K. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, and tax revenue unavailable for appropriation. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

M. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures, or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2003.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable,

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

available resources. The District had no long-term advances receivable or payable at June 30, 2003.

An analysis of interfund transactions is presented in Note 5.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute for textbooks. The District has also received state monies that are restricted for school bus purchase. Fund balance reserves have also been established. See Note 21 for details.

O. Estimates

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

P. Contributions of Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at year-end. There was \$142,855 in capital contributions received by the enterprise funds in 2003.

Q. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (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 changes in financial position 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Accounting Change

During fiscal year 2003, the District changed its fixed asset policy to increase the capitalization threshold from \$500 to \$2,500. An adjustment is required to restate the general fixed asset account group (see Note 9) and the retained earnings in the Food Service enterprise fund. The adjustment had the following effect on retained earnings as previously reported as of June 30, 2003:

	<u>Enterprise</u>
Retained earnings reported as of June 30, 2002	\$ 14,273
Adjustment	(3,560)
Restated retained earnings as of July 1, 2002	<u>\$ 10,713</u>

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

B. Deficit Fund Balances

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

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Title I	\$ 111
Reducing Class Size	63

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balances in the Title I and Reducing Class Size Grant special revenue funds are caused by the application of GAAP, namely in the reporting of a liability for accrued wages and retirement obligations attributable to the fiscal year. These deficits will be eliminated by intergovernmental revenues and other subsidies not recognized at June 30.

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 the Board of Education 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 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 accounts, including passbook accounts.

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

Interim monies may be 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 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;

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments 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 with fiscal agent: The District had \$29 in cash held by the North Central Ohio Educational Service Center which is included on the balance sheet as "Cash with Fiscal Agent". The Educational Service Center holds this flow through grant money for the District along with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "*Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*". *Deposits:* At year-end, the carrying amount of the District's deposits was \$598,519 and the bank balance was \$790,300. Of the bank balance:

1. \$100,000 was covered by federal deposit insurance; and
2. \$690,300 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the state of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

The District had an investment of \$1,258,055 in STAR Ohio at June 30, 2003. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

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

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 1,856,603	
Investments of the cash management pool:		
Investment in STAR Ohio	(1,258,055)	\$ 1,258,055
Cash with fiscal agent	(29)	
GASB Statement No. 3	\$ 598,519	\$ 1,258,055

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District's operating transfers for fiscal year 2003:

	Transfers In	Transfers Out
General Fund		\$ 190,480
Special Revenue Fund:		
Termination Benefits Fund	\$ 36,637	
Debt Service Fund	19,150	
Capital Project Fund:		
Permanent Improvement	135,000	
Enterprise Fund		
Food Service		307
Total	\$ 190,787	\$ 190,787

B. The following is a summarized breakdown of the District's interfund loans receivable and payable at June 30, 2003:

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 7,098	
Special Revenue Fund		
Title VI		\$ 2,098
Agency Fund		
Employee Benefits		5,000
Total	\$ 7,098	\$ 7,098

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35 percent of market value and personal property is assessed at 100 percent of market value except for the personal property of rural electric companies which is assessed 50 percent of market and railroads which are assessed at 29 percent.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The assessed value upon which the 2002 taxes were collected was \$32,336,242. Agricultural/residential and public utility real estate represented 82.80 percent or \$26,772,800 of this total; commercial and industrial real estate represented 6.55 percent or \$2,118,520 of this total, public utility tangible represented 4.40 percent or \$1,423,330 of this total and general tangible property represented 6.25 percent or \$2,021,592 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$37.50 per \$1,000.00 of assessed valuation for operations and \$4.32 per \$1,000.00 of assessed valuation for debt service.

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. All property is required to be revalued every six years. The last reappraisal update was completed in 1999.

The Seneca County Treasurer collects property tax on behalf of the District. The Seneca County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$53,164 was available to the District as an advance at June 30, and is recognized as revenue.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2003, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to fiscal year-end.

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The District levies a voted tax of three-quarters percent (0.75%) for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the state. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, interfund loans, and intergovernmental grants (to the extent such grants relate to the current fiscal year). Intergovernmental grants receivable have been presented as "Due from other governments" on the combined balance sheet. Taxes and intergovernmental receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of state programs.

A summary of the principal items of receivables follows:

	Amounts
<u>General Fund</u>	
Taxes - current and delinquent	\$ 714,181
Accounts	445
Accrued interest	10,849
Interfund loans	7,098
<u>Special Revenue Funds</u>	
Taxes - current and delinquent	14,034
Accounts	837
Due from other governments	2,098
<u>Debt Service Fund</u>	
Taxes - current and delinquent	125,196
<u>Enterprise Funds</u>	
Accounts	148

NOTE 9 - FIXED ASSETS

- A. The general fixed assets account group has been restated as of July 1, 2002 due to a change in the fixed asset policy to increase the capitalization threshold from \$500 to \$2,500.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Balance 06/30/02	Increase (Decrease)	Restated Balance 07/01/02
Land/improvements	\$ 154,568	\$ 7,457	\$ 162,025
Buildings/improvements	3,656,203		3,656,203
Furniture/equipment	793,990	(758,231)	35,759
Vehicles	484,828	(16,529)	468,299
Construction in progress	7,207,854		7,207,854
Total	\$ 12,297,443	\$ (767,303)	\$ 11,530,140

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

	Restated Balance 07/01/02	Increase	Decrease	Balance 6/30/03
Land/ improvements	\$ 162,025			\$ 162,025
Buildings/ improvements	3,656,203	\$ 12,033,468	\$ (3,101,361)	12,588,310
Furniture/equipment	35,759	38,775	(14,422)	60,112
Vehicles	468,299			468,299
Construction in progress	7,207,854	4,728,268	(11,525,126)	410,996
Total	\$ 11,530,140	\$ 16,800,511	\$ (14,640,909)	\$ 13,689,742

The construction in progress represents costs incurred by June 30, 2003 for the renovations of the athletic annex and construction of a new building for the elementary, middle and high school. The total estimated cost of the building project, of which 89 percent is being funded by the Ohio School Facilities Commission, is \$12,601,723. The scheduled date of completion is December 2003.

B. A summary of the proprietary fixed assets at June 30, 2003 follows:

Furniture and equipment	\$ 142,855
Less: accumulated depreciation	<u>3,571</u>
Net fixed assets	<u>\$ 139,284</u>

NOTE 10 - OPERATING LEASES

The District rents the elementary school building from St. Boniface Parish. The current contract began June 1, 2001, and was cancelled February 1, 2003. During fiscal year 2003, the District paid \$15,750 in rent.

NOTE 11 - LONG-TERM OBLIGATIONS

A. In fiscal year 2001, the District issued \$985,000 in general obligation bonds to provide funds for the construction of a new elementary, middle and high school (hereafter "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

long-term obligations account group. Payments of principal and interest relating to this bond are recorded as an expenditure in the capital project fund. The source of payment is derived from a current 4.32 mill bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2003, the total estimated cost of the Construction Project is \$12,601,723, of which OSFC will pay \$11,215,617.

Interest payments on the general obligation bonds are due on December 1 and June 1 of each year. The final maturity stated in the issue is December 1, 2023.

In conjunction with the 4.32 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the Special Revenue funds.

- B.** During fiscal year 1994, the District entered into an energy conservation loan to provide for energy improvements to various District buildings. The primary source of repayment of this loan is through energy savings as a result of the improvements. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for in the general long-term debt account group.
- C.** The following is a description of the District's bonds and loan outstanding as of June 30, 2003:

	Interest Rate	Maturity Date	Bonds/Loan Outstanding 7/1/02	Bonds Issued in 2003	Bonds/Loan Retired in 2003	Bonds/Loan Outstanding 6/30/03
Classroom facilities improvement bonds	3.7% to 5.40%	12/1/23	\$ 955,000		\$ (25,000)	\$ 930,000
H.B. 264 energy loan	5.00%	8/1/04	30,673	-	(17,612)	13,061
			<u>\$ 985,673</u>	<u>\$ -</u>	<u>\$ (42,612)</u>	<u>\$ 943,061</u>

- D.** The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds and the energy conservation loan:

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Fiscal Year	G.O. Bonds			Energy Conservation Loan		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 25,000	\$ 45,406	\$ 70,406	\$ 13,061	\$ 653	\$ 13,714
2005	30,000	44,313	74,313			
2006	30,000	43,105	73,105			
2007	30,000	41,882	71,882			
2008	30,000	40,645	70,645			
2009-2013	185,000	181,029	366,029			
2014-2018	230,000	132,120	362,120			
2019-2023	300,000	61,020	361,020			
2024	70,000	1,890	71,890			
Total	\$ 930,000	\$ 591,410	\$ 1,521,410	\$ 13,061	\$ 653	\$ 13,714

- E. During the year ended June 30, 2003, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to practicality of determining these values. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	Balance 7/1/02	Increase	Decrease	Balance 6/30/03
Compensated absences	\$ 180,964		\$ (1,803)	\$ 179,161
Pension obligation payable	27,325	\$ 31,279	(27,325)	31,279
Energy conservation loan payable	30,673		(17,612)	13,061
Bond Anticipation Notes	190,000	125,000	(190,000)	125,000
General obligation bonds payable	955,000		(25,000)	930,000
Total	\$ 1,383,962	\$ 156,279	\$ (261,740)	\$ 1,278,501

F. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$2,040,923 (including available funds of \$60,661) and an unvoted debt margin of \$32,336.

NOTE 12 - NOTES PAYABLE

On January 17, 2002, the District issued a \$190,000 bond anticipation note. This note was issued in anticipation of issuance of bonds to pay the local share of school construction and to pay costs of acquiring a site for classroom facilities under the State of Ohio Classroom Facilities Assistance Program. The note matured on January 17, 2003, and had an annual interest rate of 2.25 percent. The note is a general obligation of the District, for which the District's full faith and credit are pledged for repayment. The principal and interest payments relating to the note are recorded as expenditures in the Classroom Facilities Construction Capital projects fund, and the note was presented as a liability of the General Long-Term Obligations Account Group at June 30, 2002.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

On January 17, 2003, the District issued a \$125,000 bond anticipation note. This note was issued in anticipation of issuance of bonds to pay the local share of school construction and to pay costs of acquiring a site for classroom facilities under the State of Ohio Classroom Facilities Assistance Program. The note matures on January 17, 2004 and bears an annual interest rate of 1.90 percent. The note is a general obligation of the District, for which the District's full faith and credit are pledged for repayment. This note is presented as a liability of the general long-term obligations account group.

A summary of the bond anticipation note activity for the year ended June 30, 2003 follows:

	Principal Outstanding 7/1/02	Additions	Reductions	Principal Outstanding 6/30/03
Bond Anticipation Note - 2.25%	\$ 190,000		\$ 190,000	
Bond Anticipation Note - 1.90%		\$ 125,000		\$ 125,000
Total	\$ 190,000	\$ 125,000	\$ 190,000	\$ 125,000

NOTE 13 - COMPENSATED ABSENCES

Vacation leave accumulated by governmental fund type employees is recorded in the governmental funds as it will be paid with expendable, available resources. Sick leave accumulated by governmental fund type employees has been recorded in the general long-term obligations account group. Sick leave in the proprietary funds is expended when earned.

Upon retirement, a fully vested employee is entitled to 25 percent of their accumulated sick leave based on their years of service not to exceed 220 days or a maximum payout of 55 days. The maximum payout days of 55 is reduced if the employee has less than ten years of service with the District. Employees who use five or fewer sick days a year are credited with one extra day of severance pay to a maximum accumulation of ten extra days. This negotiated agreement effectively increases the District's maximum severance payout to 65 days. At June 30, 2003, the vested benefits for vacation leave for governmental fund type employees totaled \$3,869 and vested benefits for sick leave totaled \$175,292. These amounts represent the non-current portion of the vested benefits and are reported in the general long-term obligations account group. The current portions of vacation leave vested benefits total \$8,458, and vested benefits for sick leave totaled \$7,322 and have been reported as a liability of the governmental funds. For proprietary fund types, there were no vested benefits for vacation leave and the vested benefits for sick leave totaled \$3,309. These amounts represent the current and non-current portion of the vested benefits and are reported as a liability of the fund from which the employee is paid.

NOTE 14 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90 percent coinsured. The following is a description of the District's insurance coverage:

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Coverage	Insurer	Limits of Coverage	Deductible
General liability:	Harcum-Hyre		
Each occurrence		\$1,000,000	
Aggregate		3,000,000	
Building and contents	United Insurance Service	16,220,273	\$1,000
Fleet:	United Insurance Service		
Comprehensive		1,000,000	
Collision		1,000,000	1,000

B. Health Insurance

The District joined together with other area school districts to form the North Central Ohio Joint Self Insurance Association, a public entity risk pool for eight member school districts. The risk of loss transfers entirely to the pool. The pool is self-sustaining through member premiums. The District paid a monthly premium to the pool for health insurance. The agreement for formation of the pool provided that it will be self-sustaining through member premiums and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$50,000 for any employee.

C. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). 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.

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in coverage from the last fiscal year.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 15 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The 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 District as of and for the year ended June 30, 2003.

	Food Service	Uniform School Supplies	Total
Operating revenue	\$ 81,485	\$ 17,126	\$ 98,611
Operating expenses before depreciation	111,514	16,752	128,266
Depreciation	3,571		3,571
Operating income (loss)	(33,600)	374	(33,226)
Operating grants	13,726		13,726
Federal donated commodities	18,102		18,102
Net income/(loss)	(1,601)	374	(1,227)
Net working capital	12,446	10,049	22,495
Total assets	158,319	10,049	168,368
Total liabilities	16,334		16,334
Total equity	141,985	10,049	152,034
Encumbrances at June 30, 2003	295	1,344	1,639

NOTE 16 - DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2003; 8.17 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$70,614, \$65,338, and \$50,134, respectively; 60.42 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$27,948 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

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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 9.3 percent of their annual covered salary and the District is required to contribute 14 percent. 13 percent 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 percent for members and 14 percent for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$208,105, \$194,334, and \$179,851 respectively; 91.7 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$17,143, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds. Contributions to the DC and Combined Plan for the fiscal year ended June 30, 2003, were zero made by the District and \$28 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 17 - 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

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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 STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$14,865 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

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

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$330.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$49,709 during the 2003 fiscal year.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual - All Governmental Fund Types 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	\$ 124,357	\$ 29,797	\$ (5,727)	\$ (4,716,443)
Net adjustment for revenue accruals	(2,253)	5,899	(70,476)	40,459
Net adjustment for expenditure accruals	18,095	(10,066)	175,125	(66,720)
Net adjustment for other financing sources (uses)	(23,607)	4,895	(105,850)	125,000
Encumbrances (budget basis)	7,505	5,772		405,125
GAAP basis	\$ 124,097	\$ 36,297	\$ (6,928)	\$ (4,212,579)

NOTE 19 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state, and local 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 any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2003.

B. Litigation

The District is involved in no litigation as either plaintiff or defendant.

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.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 20 - CONTRACTUAL COMMITMENTS

As of June 30, 2003, the District had the following contractual commitments outstanding related to the Construction Project described in Note 11.A. A summary of the primary contractual commitments follows:

Contract	Total Contract	Amount Paid	Remaining Commitment
Buehrer Group	\$ 600,000	\$ 561,152	\$ 38,848
Gilbane Co.	657,221	629,140	28,081
Holcomb's	190,701	174,921	15,780
Charles Associates	693,027	687,133	5,894
Hanks Plumbing	657,602	638,271	19,331
Rietschlin Construction	778,314	729,089	49,225
Studer-Obringer	4,770,314	4,764,637	5,677
Vaughn Industries	2,233,808	2,195,424	38,384
Shaferly Excavating	211,066	132,300	78,766
Total	<u>\$ 10,792,053</u>	<u>\$ 10,512,067</u>	<u>\$ 279,986</u>

NOTE 21 - STATUTORY RESERVES

The District is required by state law to 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 fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside cash balance as of June 30, 2002		
Current year set-aside requirement	\$ 61,979	\$ 61,979
Current year offsets		(75,000)
Qualifying disbursements	(32,962)	
Total	<u>\$ 29,017</u>	<u>\$ (13,021)</u>
Cash balance carried forward to FY 2004	<u>\$ 29,017</u>	

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The amount of \$45,954 for school bus reserves is reserved in the general fund on the Combined Balance Sheet at June 30, 2003.

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for textbooks	\$ 29,017
Amount restricted for bus purchase allowance	<u>45,954</u>
Total restricted assets	<u><u>\$ 74,971</u></u>

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**Auditor of State
Betty Montgomery**

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

New Riegel Local School District
Seneca County
44 North Perry Street
New Riegel, Ohio 44853-0207

To the Board of Education:

We have audited the financial statements of New Riegel Local School District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 3, 2005, in which we noted that the District changed its capital assets threshold policy. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 3, 2005.

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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated March 3, 2005.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
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New Riegel Local School District
Seneca County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 3, 2005

**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-10574-001	ORC § 5705.41(B) expenditures exceeded appropriations	No	Partially corrected. Reported in the management letter.
2002-10574-002	Student Activities Fund Raiser Proposal/Reconciliation Form	No	Partially corrected. Reported in the management letter.



**Auditor of State
Betty Montgomery**

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**NEW RIEGEL LOCAL SCHOOL DISTRICT
SENECA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2005**