



**Auditor of State
Betty Montgomery**

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Miller City-New Cleveland Local School District
Putnam County
5400 Road 13C, P.O. Box 38
Miller City, Ohio 45864-0038

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Miller City-New Cleveland Local School District, Putnam 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 District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 18, 2003

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**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,637,326	\$ 104,601	\$ 112,033	\$ 816,306
Investments	-	22,829	-	-
Receivables:				
Property taxes - current and delinquent	732,442	13,497	137,081	-
Accounts	3,368	-	-	-
Accrued interest	22,005	31	-	-
Due from other governments	-	13,949	-	-
Materials and supplies inventory	2,429	-	-	-
Prepayments	22,780	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	10,306	-	-	-
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	<u>\$ 2,430,656</u>	<u>\$ 154,907</u>	<u>\$ 249,114</u>	<u>\$ 816,306</u>

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Agency</u>			
\$ 26,142	\$ 29,513	\$ -	\$ -	\$ 2,725,921
-	-	-	-	22,829
-	-	-	-	883,020
-	-	-	-	3,368
-	-	-	-	22,036
-	-	-	-	13,949
1,978	-	-	-	4,407
-	-	-	-	22,780
-	-	-	-	10,306
162,495	-	14,964,519	-	15,127,014
-	-	-	123,514	123,514
-	-	-	2,030,461	2,030,461
<u>\$ 190,615</u>	<u>\$ 29,513</u>	<u>\$ 14,964,519</u>	<u>\$ 2,153,975</u>	<u>\$ 20,989,605</u>

(Continued)

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ 2,091	\$ -	\$ -	\$ -
Contracts payable	-	-	-	123,669
Accrued wages and benefits	243,715	832	-	-
Compensated absences payable	5,022	-	-	-
Pension obligation payable	47,504	6	-	-
Deferred revenue	549,454	16,516	125,600	-
Due to other governments	9,319	272	-	-
Due to students	-	-	-	-
General obligation bonds payable	-	-	-	-
Obligation under capital lease	-	-	-	-
Obligation under lease purchase agreement	-	-	-	-
Total liabilities	<u>857,105</u>	<u>17,626</u>	<u>125,600</u>	<u>123,669</u>
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings: unreserved	-	-	-	-
Fund balances:				
Reserved for encumbrances	14,732	16,468	-	362,261
Reserved for materials and supplies inventory	2,429	-	-	-
Reserved for prepayments	22,780	-	-	-
Reserved for debt service	-	-	112,033	-
Reserved for tax revenue unavailable for appropriation	46,379	1,128	11,481	-
Reserved for budget stabilization	10,306	-	-	-
Unreserved-undesignated	<u>1,476,925</u>	<u>119,685</u>	<u>-</u>	<u>330,376</u>
Total equity and other credits	<u>1,573,551</u>	<u>137,281</u>	<u>123,514</u>	<u>692,637</u>
Total liabilities, equity and other credits	<u>\$ 2,430,656</u>	<u>\$ 154,907</u>	<u>\$ 249,114</u>	<u>\$ 816,306</u>

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

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$ -	\$ 114	\$ -	\$ -	\$ 2,205
-	-	-	-	123,669
7,862	-	-	-	252,409
4,314	-	-	275,137	284,473
9,694	-	-	21,013	78,217
-	-	-	-	691,570
231	2,319	-	-	12,141
-	27,080	-	-	27,080
-	-	-	1,289,566	1,289,566
-	-	-	58,259	58,259
-	-	-	510,000	510,000
<u>22,101</u>	<u>29,513</u>	<u>-</u>	<u>2,153,975</u>	<u>3,329,589</u>
-	-	14,964,519	-	14,964,519
1,666	-	-	-	1,666
166,848	-	-	-	166,848
-	-	-	-	393,461
-	-	-	-	2,429
-	-	-	-	22,780
-	-	-	-	112,033
-	-	-	-	58,988
-	-	-	-	10,306
-	-	-	-	1,926,986
<u>168,514</u>	<u>-</u>	<u>14,964,519</u>	<u>-</u>	<u>17,660,016</u>
<u>\$ 190,615</u>	<u>\$ 29,513</u>	<u>\$ 14,964,519</u>	<u>\$ 2,153,975</u>	<u>\$ 20,989,605</u>

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
From local sources:		
Taxes	\$ 1,047,280	\$ 13,899
Tuition	10,025	-
Earnings on investments	41,935	648
Extracurricular activities	-	73,964
Other local revenues	78,214	2,344
Other revenue	-	8,452
Intergovernmental - State	2,106,040	22,382
Intergovernmental - Federal	-	137,140
Total revenues	<u>3,283,494</u>	<u>258,829</u>
Expenditures:		
Current:		
Instruction:		
Regular	1,581,665	2,606
Special	265,110	92,756
Vocational	131,502	-
Support services:		
Pupil	64,719	5,069
Instructional staff	118,226	40,756
Board of Education	75,470	327
Administration	354,246	-
Fiscal	54,998	964
Operations and maintenance	361,195	-
Pupil transportation	164,825	-
Central	10,337	5,009
Community services	-	2,400
Extracurricular activities	67,098	72,404
Facilities acquisition and construction	-	-
Capital outlay	30,832	36,579
Debt service:		
Principal retirement	12,401	13,198
Interest and fiscal charges	12,523	-
Total expenditures	<u>3,305,147</u>	<u>272,068</u>
Excess of revenues over (under) expenditures	<u>(21,653)</u>	<u>(13,239)</u>
Other financing sources (uses):		
Proceeds of lease purchase agreement	-	-
Proceeds of capital lease transaction	38,633	36,579
Operating transfers in	-	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>38,633</u>	<u>36,579</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	16,980	23,340
Fund balances, July 1	1,555,361	113,941
Increase in reserve for inventory	1,210	-
Fund balances, June 30	<u>\$ 1,573,551</u>	<u>\$ 137,281</u>

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

Governmental Fund Types		
Debt Service	Capital Projects	Total (Memorandum Only)
\$ 152,067	\$ -	\$ 1,213,246
-	-	10,025
-	39,162	81,745
-	-	73,964
-	-	80,558
-	-	8,452
18,127	11,500	2,158,049
-	-	137,140
<u>170,194</u>	<u>50,662</u>	<u>3,763,179</u>
-	-	1,584,271
-	-	357,866
-	-	131,502
-	-	69,788
-	34,260	193,242
-	-	75,797
-	-	354,246
-	-	55,962
-	490,916	852,111
-	-	164,825
-	-	15,346
-	-	2,400
-	-	139,502
-	3,334,428	3,334,428
-	-	67,411
81,478	-	107,077
<u>84,230</u>	<u>10,000</u>	<u>106,753</u>
<u>165,708</u>	<u>3,869,604</u>	<u>7,612,527</u>
<u>4,486</u>	<u>(3,818,942)</u>	<u>(3,849,348)</u>
-	510,000	510,000
-	-	75,212
-	45,524	45,524
<u>(45,524)</u>	<u>-</u>	<u>(45,524)</u>
<u>(45,524)</u>	<u>555,524</u>	<u>585,212</u>
(41,038)	(3,263,418)	(3,264,136)
164,552	3,956,055	5,789,909
-	-	1,210
<u>\$ 123,514</u>	<u>\$ 692,637</u>	<u>\$ 2,526,983</u>

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

	<u>General</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance: Favorable (Unfavorable)</u>
Revenues:			
From local sources:			
Taxes	\$ 1,037,829	\$ 1,059,314	\$ 21,485
Tuition	15,943	10,025	(5,918)
Earnings on investments	124,836	61,335	(63,501)
Extracurricular activities	-	-	-
Other local revenues	49,403	70,561	21,158
Revenue from local sources	-	-	-
Intergovernmental - State	2,133,985	2,106,040	(27,945)
Intergovernmental - Federal	-	-	-
Total revenues	<u>3,361,996</u>	<u>3,307,275</u>	<u>(54,721)</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,778,335	1,578,996	199,339
Special	246,916	255,967	(9,051)
Vocational	224,719	140,421	84,298
Support services:			
Pupil	69,385	64,438	4,947
Instructional staff	142,814	123,185	19,629
Board of Education	69,846	78,346	(8,500)
Administration	370,542	355,248	15,294
Fiscal	73,520	54,502	19,018
Operations and maintenance	314,487	360,906	(46,419)
Pupil transportation	147,078	164,377	(17,299)
Central	2,870	11,886	(9,016)
Community services	-	-	-
Extracurricular activities	67,173	68,169	(996)
Facilities acquisition and construction	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	10,636	(10,636)
Total expenditures	<u>3,507,685</u>	<u>3,267,077</u>	<u>240,608</u>
Excess of revenues over (under) expenditures	<u>(145,689)</u>	<u>40,198</u>	<u>185,887</u>
Other financing sources (uses):			
Proceeds of lease purchase agreement	-	-	-
Advances in	2,000	2,700	700
Advances out	(2,000)	(2,700)	(700)
Operating transfers in	169,699	169,864	165
Operating transfers out	(117,396)	(169,699)	(52,303)
Refund of prior year expenditure	6,654	4,492	(2,162)
Total other financing sources (uses)	<u>58,957</u>	<u>4,657</u>	<u>(54,300)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(86,732)</u>	<u>44,855</u>	<u>131,587</u>
Fund balances, July 1	1,511,768	1,511,768	-
Prior year encumbrances appropriated	74,186	74,186	-
Fund balances, June 30	<u>\$ 1,499,222</u>	<u>\$ 1,630,809</u>	<u>\$ 131,587</u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 13,358	\$ 13,484	\$ 126	\$ 148,325	\$ 149,191	\$ 866
-	-	-	-	-	-
716	678	(38)	-	-	-
74,844	73,964	(880)	-	-	-
1,450	2,344	894	-	-	-
8,452	8,452	-	-	-	-
22,508	22,382	(126)	18,993	18,127	(866)
100,831	100,828	(3)	-	-	-
<u>222,159</u>	<u>222,132</u>	<u>(27)</u>	<u>167,318</u>	<u>167,318</u>	<u>-</u>
3,000	2,606	394	-	-	-
81,156	78,927	2,229	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
57,866	44,968	12,898	-	-	-
21,000	327	20,673	-	-	-
-	-	-	-	-	-
690	962	(272)	-	-	-
-	10,000	(10,000)	-	-	-
350	-	350	-	-	-
5,000	5,000	-	-	-	-
3,150	2,650	500	-	-	-
94,254	77,783	16,471	-	-	-
-	-	-	-	-	-
-	-	-	81,478	81,478	-
-	-	-	84,604	84,230	374
<u>266,466</u>	<u>223,223</u>	<u>43,243</u>	<u>166,082</u>	<u>165,708</u>	<u>374</u>
<u>(44,307)</u>	<u>(1,091)</u>	<u>43,216</u>	<u>1,236</u>	<u>1,610</u>	<u>374</u>
-	-	-	-	-	-
-	2,700	2,700	-	-	-
-	(2,700)	(2,700)	-	-	-
-	-	-	-	-	-
-	-	-	(45,524)	(45,524)	-
-	-	-	-	-	-
-	-	-	<u>(45,524)</u>	<u>(45,524)</u>	<u>-</u>
(44,307)	(1,091)	43,216	(44,288)	(43,914)	374
105,585	105,585	-	155,947	155,947	-
6,468	6,468	-	-	-	-
<u>\$ 67,746</u>	<u>\$ 110,962</u>	<u>\$ 43,216</u>	<u>\$ 111,659</u>	<u>\$ 112,033</u>	<u>\$ 374</u>

(Continued)

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
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	38,827	39,162	335
Extracurricular activities	-	-	-
Other local revenues	-	-	-
Revenue from local sources	-	-	-
Intergovernmental - State	11,500	11,500	-
Intergovernmental - Federal	-	-	-
Total revenues	<u>50,327</u>	<u>50,662</u>	<u>335</u>
Expenditures:			
Current:			
Instruction:			
Regular	-	-	-
Special	-	-	-
Vocational	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	34,260	34,260	-
Board of Education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Operations and maintenance	544,015	517,240	26,775
Pupil transportation	-	-	-
Central	-	-	-
Community services	-	-	-
Extracurricular activities	-	-	-
Facilities acquisition and construction	4,360,115	4,360,102	13
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>4,938,390</u>	<u>4,911,602</u>	<u>26,788</u>
Excess of revenues over (under) expenditures	<u>(4,888,063)</u>	<u>(4,860,940)</u>	<u>27,123</u>
Other financing sources (uses):			
Proceeds of lease purchase agreement	500,000	500,000	-
Advances in	-	-	-
Advances out	-	-	-
Operating transfers in	45,524	45,524	-
Operating transfers out	-	-	-
Refund of prior year expenditure	-	-	-
Total other financing sources (uses)	<u>545,524</u>	<u>545,524</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(4,342,539)</u>	<u>(4,315,416)</u>	<u>27,123</u>
Fund balances, July 1	2,263,629	2,263,629	-
Prior year encumbrances appropriated	<u>2,382,163</u>	<u>2,382,163</u>	<u>-</u>
Fund balances, June 30	<u>\$ 303,253</u>	<u>\$ 330,376</u>	<u>\$ 27,123</u>

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

Total (Memorandum only)

Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 1,199,512	\$ 1,221,989	\$ 22,477
15,943	10,025	(5,918)
164,379	101,175	(63,204)
74,844	73,964	(880)
50,853	72,905	22,052
8,452	8,452	-
2,186,986	2,158,049	(28,937)
100,831	100,828	(3)
<u>3,801,800</u>	<u>3,747,387</u>	<u>(54,413)</u>
1,781,335	1,581,602	199,733
328,072	334,894	(6,822)
224,719	140,421	84,298
69,385	64,438	4,947
234,940	202,413	32,527
90,846	78,673	12,173
370,542	355,248	15,294
74,210	55,464	18,746
858,502	888,146	(29,644)
147,428	164,377	(16,949)
7,870	16,886	(9,016)
3,150	2,650	500
161,427	145,952	15,475
4,360,115	4,360,102	13
81,478	81,478	-
84,604	94,866	(10,262)
<u>8,878,623</u>	<u>8,567,610</u>	<u>311,013</u>
<u>(5,076,823)</u>	<u>(4,820,223)</u>	<u>256,600</u>
500,000	500,000	-
2,000	5,400	3,400
(2,000)	(5,400)	(3,400)
215,223	215,388	165
(162,920)	(215,223)	(52,303)
6,654	4,492	(2,162)
<u>558,957</u>	<u>504,657</u>	<u>(54,300)</u>
(4,517,866)	(4,315,566)	202,300
4,036,929	4,036,929	-
2,462,817	2,462,817	-
<u>\$ 1,981,880</u>	<u>\$ 2,184,180</u>	<u>\$ 202,300</u>

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

	Enterprise
Operating revenues:	
Tuition and fees	\$ 5,015
Sales and charges for services	122,232
Other	1,011
Total operating revenues	128,258
Operating expenses:	
Personal services	73,041
Contract services	6,503
Materials and supplies	76,817
Depreciation	11,541
Total operating expenses	167,902
Operating loss	(39,644)
Nonoperating revenues:	
Grants and contributions	21,271
Federal commodities	14,769
Interest revenue	203
Total nonoperating revenues	36,243
Net loss before capital contributions	(3,401)
Capital contributions	160,508
Net income	157,107
Retained earnings, July 1	9,741
Retained earnings, June 30	\$ 166,848

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

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

	Enterprise
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 5,015
Cash received from sales and service charges	122,232
Cash received from other operations	1,011
Cash payments for personal services	(72,777)
Cash payments for contract services	(6,503)
Cash payments for materials and supplies	(63,268)
Net cash used in operating activities	(14,290)
Cash flows from noncapital financing activities:	
Cash received from grants and contributions	21,271
Cash flows from investing activities:	
Interest received	203
Net increase in cash and cash equivalents	7,184
Cash and cash equivalents at beginning of year	18,958
Cash and cash equivalents at end of year	\$ 26,142
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (39,644)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	11,541
Federal donated commodities	14,769
Changes in assets and liabilities:	
Increase in materials and supplies inventory	(1,220)
Increase in accrued wages and benefits	67
Increase in compensated absences payable	9
Increase in pension obligation payable	133
Increase in due to other governments	55
Net cash used in operating activities	\$ (14,290)

During fiscal year 2003 the food service enterprise fund received \$160,508 in fixed assets that were paid for from capital project funds

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

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**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Miller City-New Cleveland Local School District (the District) is located in Putnam County, including the Village of Miller City and all or portions of Greensburg, Liberty, Ottawa and Palmer Townships. The District serves an area of approximately 48 square miles.

The District was organized in 1932, in accordance with Sections 2 and 3, Article 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 District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District currently operates 2 instructional buildings. The District employs 17 non-certified and 39 certified (including administrative) full-time and part-time employees to provide services to approximately 471 students in grades K through 12 and various community groups, which ranks it 618 out of approximately 740 public and community school districts in Ohio.

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. The Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert counties, and the cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county, plus one representative from the fiscal agent school district. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

Millstream Career Cooperative

The Millstream Career Cooperative (Millstream) is a distinct political subdivision of the State of Ohio established under Section 3313.90. Millstream operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Putnam and Hancock Counties Educational Service Centers serve in an ex-officio capacity for all meetings. To obtain financial information write to Pamela Barber, Treasurer, Findlay City Schools, at 227 South West Street, Findlay, Ohio 45840-3377.

The District also participates in two insurance group purchasing pools, described in Note 13.

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. The general fund balance is available to the District for any purpose provided it is expended or transferred in accordance with applicable Ohio statute.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

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.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust 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 are the District's proprietary fund types.

Enterprise Funds - The enterprise funds are used to account for operations that are (a) 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

Agency Funds - These 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. Agency funds are custodial in nature, and results of operations are not measured. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual. At June 30, 2003, the District had accruals for the agency funds that, in another fund type, would be recognized on the combined balance sheet (see Note 3.B.).

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 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.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

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 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. 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 interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). Current property taxes measurable as of June 30, 2003, but which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. 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 the fiscal year-end.

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 incomes taxes is recognized when the underlying exchange transaction takes place. 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. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

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 exceptions: general long-term obligation principal and interest

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

reported only when due; and the 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The proprietary funds are accounted for on the 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 on the operating statement as an expense, with a like amount 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 or income taxes.

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2003 is as follows:

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 Putnam 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, which is the legal level of budgetary

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

control. Although the legal level of budgetary control was established at the fund level of expenditures, the budgetary statements present comparisons at the fund and function level of expenditures as elected by the District Treasurer. (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.

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid. The Title VI-B Preschool and Title VI-B School Age special revenue funds are flow through grants for which the Putnam County Educational Service Center is the primary recipient. Budgetary information for these funds is not included within the District's reporting entity, for which the "appropriated budget" is adopted, and the District does not maintain separate budgetary records.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. 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 funds completed the year within the amount of their legally authorized cash basis appropriation.
8. 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.
9. 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.

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 reservation of 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.

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.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

During fiscal 2003, investments were limited to nonnegotiable certificates of deposit, repurchase agreements, and money market deposit accounts.

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 and repurchase agreements are reported at cost.

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 \$41,935, which includes \$13,440 assigned from other District funds.

For purposes of the 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 indicated 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.

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 consumption method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayments are 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) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than five years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest on debt issued to construct or acquire general fixed assets is not capitalized in the account

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

group. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed asset 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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives.

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and minor equipment	10

I. 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 report 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.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. 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, available resources.

An analysis of the District's interfund transactions for fiscal year 2003 is presented in Note 5.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

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 with at least ten (10) years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance 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

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

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

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, debt service, prepayments, materials and supplies inventory, tax revenue unavailable for appropriation, and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Contributions of Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. 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 fiscal year-end. There was \$160,508 in capital contributions received by the enterprise funds in fiscal 2003. Contributed capital in the enterprise funds at June 30, 2003 was \$1,666.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. Fund balance reserves have also been established. See Note 20 for details.

O. Estimates

The preparation of 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. 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 GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

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

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Management Information Systems	\$ 33
Ohio Reads	13
Title I	978

These GAAP Basis deficits will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

B. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>Liabilities</u>	
Accounts payable	\$21

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 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 moneys deposited with the institution.

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

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

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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) 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 investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys 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 on Hand: At year-end, the District had \$1,500 in undeposited cash on hand which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

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

Deposits: At year-end the carrying amount of the District's deposits was \$2,757,556 and the bank balance was \$2,929,023. Of the bank balance:

1. \$370,600 was covered by federal deposit insurance; and
2. \$2,558,423 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

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A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 2,736,227	\$ 22,829
Certificates of deposits	22,829	(22,829)
Cash on hand	(1,500)	-
GASB Statement No. 3	\$ 2,757,556	\$ -

5. INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers at June 30, 2003:

	Transfers In	Transfers Out
Debt Service Fund:		
Bond Retirement	\$ -	\$ 45,524
Capital Projects Fund:		
Permanent Improvement	45,524	-
Total	\$ 45,524	\$ 45,524

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 April 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 varying rates of true value.

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 first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

The assessed value upon which the 2002 taxes were collected was \$30,707,839. Agricultural/residential and public utility/minerals real estate represented \$26,869,450 or 87.50 percent of this total; commercial and industrial real estate represented \$450,910 or 1.47 percent of this total, public utility tangible represented \$2,127,870 or 6.93 percent of this total and general tangible property represented

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\$1,259,609 or 4.10 percent of this total. The voted general tax rate at the fiscal year ended June 30, 2003 was \$31.00 per \$1,000.00 of assessed valuation for operations, and \$5.50 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 January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

The Putnam County Treasurer collects property tax on behalf of the District. The 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 represent 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.

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 the fiscal year-end. Available tax advances at June 30, 2003 totaled \$46,379 in the general fund, \$11,481 in the debt service fund, and \$1,128 in the Classroom Facilities Maintenance special revenue fund.

7. INCOME TAX

The District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The tax was effective January 1, 1993, 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, and totaled \$438,850 for fiscal 2003.

8. RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants (to the extent that eligibility requirements have been met by fiscal year-end). 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:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$ 732,442
Accrued interest	22,005

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<u>Special Revenue Fund</u>	
Taxes - current and delinquent	13,497
Due from other governments	13,949
<u>Debt Service Fund</u>	
Taxes - current and delinquent	137,081

9. FIXED ASSETS

The general fixed assets account group has been restated as of July 1, 2002 due to an increase in the capitalization threshold from \$250 to \$1000. This adjustment had the following effect on the balance previously reported in the general fixed asset account group:

	Balance June 30, 2002	Adjustment	Balance July 1, 2002
Land/improvements	\$ 165,960	\$ (1,390)	\$ 164,570
Buildings/improvements	1,875,310	-	1,875,310
Furniture/equipment	993,432	(218,474)	774,958
Vehicles	419,394	-	419,394
Construction in progress	7,213,708	-	7,213,708
Total	<u>\$ 10,667,804</u>	<u>\$ (219,864)</u>	<u>\$ 10,447,940</u>

The following changes occurred in the general fixed assets account group during the year:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land/improvements	\$ 164,570	\$ -	\$ -	\$ 164,570
Buildings/improvements	1,875,310	-	-	1,875,310
Furniture/equipment	774,958	523,876	86,054	1,212,780
Vehicles	419,394	-	-	419,394
Construction in progress	7,213,708	4,078,757	-	11,292,465
Total	<u>\$ 10,447,940</u>	<u>\$ 4,602,633</u>	<u>\$ 86,054</u>	<u>\$ 14,964,519</u>

The construction in progress represents an addition to the elementary school and renovations to the high school, which are expected to be completed during fiscal year 2004.

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

Furniture and equipment	\$ 204,146
Less: accumulated depreciation	41,651
Net fixed assets	<u>\$ 162,495</u>

10. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2003, and in prior fiscal years, the District has entered into a capitalized lease for the acquisition of copiers and computers. The term of the lease provides an option to purchase the

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(Continued)

equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance-All Governmental Fund Types. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$75,212, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2003 fiscal year totaled \$25,599. This amount is reflected as debt service principal retirement in the general fund and the Miscellaneous Federal Grants special revenue fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003:

General Long-Term Obligations	
Year Ending June 30	Total
2004	\$ 22,598
2005	22,598
2006	9,400
2007	9,400
2008	3,916
Total future minimum lease payments	67,912
Less: amount representing interest	9,653
Present value of future minimum lease payment	\$ 58,259

The District does not have capitalized lease obligations after fiscal year 2008.

11. LEASE - PURCHASE AGREEMENT

On February 27, 2003, the District entered into a \$510,000 lease-purchase agreement with the Columbus Regional Airport Authority to provide additional funds to the construction budget approved by the Ohio School Facilities Commission to fund the construction of a new K-12 facility. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2003, the District made no principal payments on the lease-purchase agreement.

A liability in the amount of the present value of minimum lease payments has been recorded in the general long-term obligations account group. General fixed assets have been capitalized in the general fixed assets account group as a component of construction in progress in the amount of \$510,000. This amount represents the costs of the project funded by the lease-purchase agreement that were incurred prior to June 30, 2003.

The following is a schedule of the future lease payments required under the lease-purchase agreement as of June 30, 2003.

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Year Ending June 30	Principal	Interest	Administrative Fee	Total
2004	\$ 9,000	\$ 12,671	\$ 280	\$ 21,951
2005	9,000	25,132	551	34,683
2006	9,000	24,890	541	34,431
2007	10,000	24,606	531	35,137
2008	10,000	24,255	520	34,775
2009 - 2013	56,000	114,842	2,429	173,271
2014 - 2018	72,000	100,485	2,088	174,573
2019 - 2023	92,000	80,210	1,648	173,858
2024 - 2028	121,000	53,101	1,084	175,185
2029 - 2032	122,000	16,936	344	139,280
Total	<u>\$ 510,000</u>	<u>\$ 477,128</u>	<u>\$ 10,016</u>	<u>\$ 997,144</u>

12. LONG-TERM OBLIGATIONS

During the 2000 fiscal year, the District issued general obligation bonds to provide funds for the construction of facilities. These bonds are a general obligation 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 long-term obligations account group. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 6.53 (average) mill bonded debt tax levy.

These general obligation 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). As of June 30, 2003 the total estimated cost of the building project is \$12,474,606, of which OSFC will pay \$10,603,119.

In conjunction with the 6.53 mills which support the bond issue, the District also passed in fiscal 2000 a 0.5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue from this levy has been reported in the special revenue funds.

A. The following is a description of the District's general obligation bonds outstanding as of June 30, 2003:

Purpose	Interest Rate	Issue Date	Maturity Date	Balance 07/01/02	Retired during Fiscal 2003	Balance 06/30/03
Construction	5.98%	12/01/99	12/01/22	\$ 1,354,044	\$ (64,478)	\$ 1,289,566
New Gymnasium	5.38%	06/01/78	12/01/02	17,000	(17,000)	-
Total				<u>\$ 1,371,044</u>	<u>\$ (81,478)</u>	<u>\$ 1,289,566</u>

B. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

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Year Ending June 30	Principal	Interest	Total
2004	\$ 64,478	\$ 76,441	\$ 140,919
2005	64,478	72,328	136,806
2006	64,478	68,419	132,897
2007	64,478	64,510	128,988
2008	64,478	60,761	125,239
2009 - 2013	322,392	244,480	566,872
2014 - 2018	322,392	146,702	469,094
2019 - 2023	322,392	48,926	371,318
Total	<u>\$ 1,289,566</u>	<u>\$ 782,567</u>	<u>\$ 2,072,133</u>

- C. During the year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation will be paid from the fund from which the employee is paid.

	Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003
Compensated absences	\$ 263,955	\$ 11,182	\$ -	\$ 275,137
General obligation bonds	1,371,044	-	81,478	1,289,566
Pension obligation	15,329	21,013	15,329	21,013
Capital lease obligation	8,646	75,212	25,599	58,259
Lease purchase agreement	-	510,000	-	510,000
Total	<u>\$ 1,658,974</u>	<u>\$ 617,407</u>	<u>\$ 122,406</u>	<u>\$ 2,153,975</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school 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 for the District at June 30, 2003 are a voted debt margin of \$1,597,654 (including available funds of \$123,514) and an unvoted debt margin of \$30,708.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. During fiscal year 2003, the District contracted with Ohio School Risk Sharing Authority for property insurance, fleet insurance and liability insurance.

Coverage's provided by the Districts insurance carriers are as follows:

	Deductible	Coverage
Building and Contents - Replacement cost	\$1,000	\$21,201,495
Automobile Liability		4,000,000

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Uninsured Motorists	50,000
Medical Payments - per person, per year	5,000
General Liability:	
Per occurrence	4,000,000
Total per year	6,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal 2002.

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the GRP), an insurance purchasing pool. The GRP is intended to reduce premiums for the participants. 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. Participation in the GRP is limited to educational entities that can meet the GRP's selection criteria. Each participant must apply annually. The GRP provides the participants with a centralized program for processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The Treasurer of Findlay City Schools serves as coordinator of the GRP. The District paid the GRP \$691 for services provided during the year.

The District offers group medical, dental, and prescription insurances to all employees through Medical Mutual of Ohio. Depending upon the plan chosen, the employees share a portion of the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Regardless of the plan utilized by the employees, all group benefit plans are traditionally funded, and the District does not retain any risk of loss.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 16. As such, no funding provisions are required by the District.

14. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains two enterprise funds to account for the operations of Food Services 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.

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	Food Services	School Supplies	Total
Total operating revenues	\$ 123,243	\$ 5,015	\$ 128,258
Depreciation expense	11,541	-	11,541
Total operating expenses	162,816	5,086	167,902
Operating loss	(39,573)	(71)	(39,644)
Non-operating revenue:			
Grants and contributions	21,271	-	21,271
Federal donated commodities	14,769	-	14,769
Capital contributions	160,508	-	160,508
Net income/(loss)	157,178	(71)	157,107
Net working capital	9,551	782	10,333
Fixed assets:			
Additions	160,508	-	160,508
Total assets	189,833	782	190,615
Total liabilities	22,101	-	22,101
Total fund equity	167,732	782	168,514

15. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$26,825, \$17,400, and \$12,128, respectively; 42.25 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$15,490 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

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

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

A DB or Combined Plan member with five or more years 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 at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$214,250, \$149,476, and \$146,529, respectively; 83.11 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$36,196 represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003,

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certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

16. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both 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 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$16,481 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 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 5.84 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 \$12,400. 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, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 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 \$36,382 during the 2003 fiscal year.

17. OTHER EMPLOYEE BENEFITS

The Board of Education has approved an early retirement incentive (ERI) program for certified employees. The Board will purchase, from STRS, an additional one year of service credit for those employees who elect to participate in the plan. Participation was open to employees who were at least fifty years old, qualified for retirement with the year purchased by the Board, and were employed by the Board prior to June 30, 2001. The enrollment period for the ERI has no expiration date for eligible

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teachers. The Board did not limit the number of employees participating in the plan in any one year. In addition, employees who elected to participate in the plan will receive a lump sum payment for their unused sick leave, to the extent allowed by the current labor agreement. At June 30, 2003, there were no new participants in this ERI plan, and all previous amounts of liability recognized for this plan had been liquidated.

18. BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - 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);
- (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).
- (d) Although not part of the appropriated budget, the Title VI-B Preschool and Title VI-B School Age special revenue funds are included as part of the reporting entity when preparing financial statements that conform with GAAP.

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:

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	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	\$ 44,855	\$ (1,091)	\$ (43,914)	\$ (4,315,416)
Net adjustment for revenue accruals	(23,781)	36,697	2,876	-
Net adjustment for expenditure accruals	(54,893)	(65,313)	-	556,068
Net adjustment for other financing sources/(uses)	33,976	36,579	-	10,000
Adjustment for encumbrances	16,823	16,468	-	485,930
GAAP basis	\$ 16,980	\$ 23,340	\$ (41,038)	\$ (3,263,418)

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

As of the balance sheet date, the District is involved in no litigation either as a plaintiff or defendant.

C. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT
PUTNAM COUNTY**

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

20. STATUTORY RESERVES

The District is required by state law to set aside certain general fund (cash basis) revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Instructional Materials Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve
Balance at 7/1/02	\$ (1,945)	\$ -	\$ 10,306
Required set-aside	72,740	72,740	-
Current year offsets	-	(72,740)	-
Qualifying expenditures	(91,620)	-	-
Balance at 6/30/03	<u>\$ (20,825)</u>	<u>\$ -</u>	<u>\$ 10,306</u>
Balance carried forward to FY 2004	<u>\$ (20,825)</u>	<u>\$ -</u>	<u>\$ 10,306</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the instructional materials reserve. This extra amount may be used to reduce the set-aside requirement for future years. The negative amounts are therefore presented as being carried forward to the next fiscal year. The District also had qualifying disbursements in the capital maintenance reserve that reduced the set-aside amount below zero, however, excesses in the capital maintenance reserve may not be carried forward and as a result the excesses are not reported here.

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

Amount restricted for budget stabilization	<u>\$ 10,306</u>
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21. OUTSTANDING CONTRACTUAL COMMITMENTS

The District had the following contractual commitments outstanding at June 30, 2003, related to construction projects undertaken by the District:

Contractor	Amount
Arco	\$ 15,111
Beilharz	13,900
Bodie	31,057
EJ Meyer	203,649
Kirk & Blum	48,317
Schnippel	150,568
Simplex Grinnell	9,454
Vaughn	4,468
Total	<u>\$ 476,524</u>

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**Auditor of State
Betty Montgomery**

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

Miller City-New Cleveland Local School District
Putnam County
5400 Road 13C, P.O. Box 38
Miller City, Ohio 45864-0038

To the Board of Education:

We have audited the financial statements of the Miller City-New Cleveland Local School District, Putnam County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 18, 2003. 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to the management of the District in a separate letter dated December 18, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order 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 management of the District in a separate letter dated December 18, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Miller City-New Cleveland Local School District
Putnam 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 finance 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

December 18, 2003



**Auditor of State
Betty Montgomery**

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

MILLER CITY-NEW CLEVELAND LOCAL SCHOOL DISTRICT

PUTNAM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 13, 2004**