



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

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**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS**

Miami East Local School District  
Miami County  
3825 North State Route 589  
Casstown, Ohio 45312

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Miami East Local School District, Miami County, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the 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 Miami East Local School District, Miami County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds 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 October 31, 2002 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 black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

October 31, 2002

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**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>Assets and Other Debits</b>				
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,556,560	\$151,278	\$879,202	\$11,339,978
Cash and Cash Equivalents with Fiscal Agents	98,952			
Investments In Segregated Accounts				
Receivables:				
Property and Other Taxes	3,122,408			386,800
Income Taxes	294,373			
Accounts	5,415	7,855		
Intergovernmental	6,300	3,336		
Accrued Interest	2,269			
Inventory of Supplies and Materials	31,677			
Inventory Held for Resale				
Prepaid Items	21,204			
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	142,951			
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Debt				
Amount to be Provided for Retirement of General Long-Term Debt				
<b>Total Assets and Other Debits</b>	<b><u>5,282,109</u></b>	<b><u>162,469</u></b>	<b><u>879,202</u></b>	<b><u>11,726,778</u></b>
<b>Liabilities, Fund Equity and Other Credits</b>				
<b>Liabilities:</b>				
Accounts Payable	53,308	16,933		5,428
Contracts Payable				44,496
Accrued Wages and Benefits Payable	584,536	16,222		
Intergovernmental Payable	198,284	5,596		
Due to Students				
Undistributed Monies				
Deferred Revenue	2,948,983	3,401		362,084
Compensated Absences Payable	16,419			
Accrued Interest Payable	1,897			
Energy Conservation Loan Payable	35,000			
General Obligation Bonds Payable				
<b>Total Liabilities</b>	<b><u>3,838,427</u></b>	<b><u>42,152</u></b>		<b><u>412,008</u></b>
<b>Fund Equity and Other Credits:</b>				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved (Deficit)				
Fund Balance:				
Reserved for Encumbrances	169,953	12,559		731,180
Reserved for Inventory of Supplies and Materials	31,677			
Reserved for Property Taxes	178,555			24,716
Reserved for Endowments				
Reserved for Textbook Purchases	142,951			
Designated for Capital	181,483			
Unreserved, Undesignated	739,063	107,758	879,202	10,558,874
<b>Total Fund Equity (Deficit) and Other Credits</b>	<b><u>1,443,682</u></b>	<b><u>120,317</u></b>	<b><u>879,202</u></b>	<b><u>11,314,770</u></b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b><u>\$5,282,109</u></b>	<b><u>\$162,469</u></b>	<b><u>\$879,202</u></b>	<b><u>\$11,726,778</u></b>

*See accompanying notes to the general purpose financial statements.*

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$34,944	\$56,438			\$14,018,400
	30,832			98,952
				30,832
				3,509,208
				294,373
2,189				15,459
				9,636
				2,269
1,394				33,071
12,974				12,974
				21,204
				142,951
8,571		\$5,127,800		5,136,371
			\$879,202	879,202
			9,798,177	9,798,177
<u>60,072</u>	<u>87,270</u>	<u>5,127,800</u>	<u>10,677,379</u>	<u>34,003,079</u>
1,248	500			77,417
				44,496
20,781				621,539
16,429			60,757	281,066
	50,069			50,069
	280			280
				3,314,468
16,878			613,681	646,978
				1,897
				35,000
			10,002,941	10,002,941
<u>55,336</u>	<u>50,849</u>		<u>10,677,379</u>	<u>15,076,151</u>
		5,127,800		5,127,800
4,760				4,760
(24)				(24)
	500			914,192
				31,677
				203,271
	30,000			30,000
				142,951
				181,483
	5,921			12,290,818
<u>4,736</u>	<u>36,421</u>	<u>5,127,800</u>		<u>18,926,928</u>
<u>\$60,072</u>	<u>\$87,270</u>	<u>\$5,127,800</u>	<u>\$10,677,379</u>	<u>\$34,003,079</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			Fund Type	Total (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		Expendable Trust
<b>Revenues:</b>						
Property and Other Taxes	\$3,181,231			\$404,435		\$3,585,666
Income Taxes	679,166					679,166
Tuition and Fees	49,604					49,604
Gifts and Donations		\$3,750			\$1,000	4,750
Interest	85,716	66	\$6,442	159,070	76	251,370
Intergovernmental	4,314,458	181,748		129,149		4,625,355
Extracurricular Activities	1,957	199,109				201,066
Decrease in Fair Value of Investments				(32,514)		(32,514)
Miscellaneous	107,924	31,863				139,787
<b>Total Revenues</b>	<b>8,420,056</b>	<b>416,536</b>	<b>6,442</b>	<b>660,140</b>	<b>1,076</b>	<b>9,504,250</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	3,521,532	55,251		7,887		3,584,670
Special	499,816	179,957				679,773
Vocational	139,464					139,464
Support Services:						
Pupils	281,252	113,713				394,965
Instructional Staff	197,207	116,777		3,221		317,205
Board of Education	75,779					75,779
Administration	863,918	44,418				908,336
Fiscal	254,804	196		6,607		261,607
Business	29,520	55				29,575
Operation and Maintenance of Plant	668,846	2,703		600		672,149
Pupil Transportation	549,449	24,724		63,109		637,282
Central	257,662	14,434		57,121		329,217
Operation of Non-Instructional Services	124	5,901			500	6,525
Extracurricular Activities	223,151	92,124				315,275
Capital Outlay	19,751	3,231		122,342		145,324
Debt Service:						
Principal Retirement			10,000,000			10,000,000
Interest and Fiscal Charges	1,918		116,483			118,401
Bond Issuance Costs			152,168			152,168
<b>Total Expenditures</b>	<b>7,584,193</b>	<b>653,484</b>	<b>10,268,651</b>	<b>260,887</b>	<b>500</b>	<b>18,767,715</b>
Excess of Revenues Over (Under) Expenditures	835,863	(236,948)	(10,262,209)	399,253	576	(9,263,465)
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds			9,999,992			9,999,992
Premium for Bonds Issued			841,419			841,419
Proceeds from Sale of Note				10,000,000		10,000,000
Proceeds from Sale of Fixed Assets	20,767					20,767
Operating Transfers - In		228,661	300,000	250,000		778,661
Operating Transfers - Out	(808,661)					(808,661)
<b>Total Other Financing Sources (Uses)</b>	<b>(787,894)</b>	<b>228,661</b>	<b>11,141,411</b>	<b>10,250,000</b>		<b>20,832,178</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	47,969	(8,287)	879,202	10,649,253	576	11,568,713
Fund Balances at Beginning of Year	1,399,949	128,604		665,517	3,028	2,197,098
Decrease in Reserve for Inventory	(4,236)					(4,236)
<b>Fund Balances at End of Year</b>	<b>\$1,443,682</b>	<b>\$120,317</b>	<b>\$879,202</b>	<b>\$11,314,770</b>	<b>\$3,604</b>	<b>\$13,761,575</b>

See accompanying notes to the general purpose financial statements.

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**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Property and Other Taxes	\$3,073,179	\$3,073,179				
Income Taxes	665,382	665,382				
Tuition and Fees	49,793	49,793				
Interest	86,168	86,168		\$65	\$65	
Intergovernmental	4,288,029	4,288,029		182,587	182,587	
Extracurricular Activities	1,957	1,957		192,152	192,152	
Gifts and Donations				3,750	3,750	
Miscellaneous	14,798	14,798		33,792	33,792	
<b>Total Revenues</b>	<b>8,179,306</b>	<b>8,179,306</b>		<b>412,346</b>	<b>412,346</b>	
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	3,529,366	3,529,366		53,246	53,246	
Special	498,735	498,735		172,473	172,473	
Vocational	139,323	139,323				
Other	31,788	31,788				
Support Services:						
Pupils	278,163	278,163		124,188	124,188	
Instructional Staff	211,243	211,243		120,492	120,492	
Board of Education	76,450	76,450				
Administration	876,907	876,907		44,107	44,107	
Fiscal	252,647	252,647				
Business	34,234	34,234		55	55	
Operation and Maintenance of Plant	746,699	746,699		2,703	2,703	
Pupil Transportation	605,142	605,142		25,925	25,925	
Central	274,111	274,111		16,544	16,544	
Operation of Non-Instructional Services	124	124		5,990	5,990	
Extracurricular Activities	237,029	237,029		88,358	88,358	
Capital Outlay	24,521	24,521		4,724	4,724	
Debt Service:						
Principal Retirement	70,000	70,000				
Interest and Fiscal Charges	5,712	5,712				
Bond Issuance Costs						
<b>Total Expenditures</b>	<b>7,892,194</b>	<b>7,892,194</b>		<b>658,805</b>	<b>658,805</b>	
Excess of Revenues Over (Under) Expenditures	<b>287,112</b>	<b>287,112</b>		<b>(246,459)</b>	<b>(246,459)</b>	
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds						
Premium for Bonds Issued						
Proceeds from Sale of Notes						
Other Financing Sources	22,818	22,818				
Proceeds from Sale of Fixed Assets	20,767	20,767				
Refund of Prior Year Expenditures	6,590	6,590		350	350	
Advances In	30,000	30,000				
Advances Out						
Operating Transfers - In				228,661	228,661	
Operating Transfers - Out	(808,661)	(808,661)				
<b>Total Other Financing Sources (Uses)</b>	<b>(728,486)</b>	<b>(728,486)</b>		<b>229,011</b>	<b>229,011</b>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<b>(441,374)</b>	<b>(441,374)</b>		<b>(17,448)</b>	<b>(17,448)</b>	
Fund Balances at Beginning of Year	1,677,675	1,677,675		124,283	124,283	
Prior Year Encumbrances Appropriated	225,509	225,509		25,885	25,885	
<b>Fund Balances at End of Year</b>	<b>\$1,461,810</b>	<b>\$1,461,810</b>	<b>\$0</b>	<b>\$132,720</b>	<b>\$132,720</b>	<b>\$0</b>

See accompanying notes to the general purpose financial statements.

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$390,380	\$390,380				
\$6,442	\$6,442		159,070	159,070		\$76	\$76	
			129,149	129,149				
						1,000	1,000	
<u>6,442</u>	<u>6,442</u>		<u>678,599</u>	<u>678,599</u>		<u>1,076</u>	<u>1,076</u>	
			9,162	9,162				
			3,221	3,221				
			6,607	6,607				
			600	600				
			63,109	63,109				
			64,500	64,500				
			852,247	852,247		1,000	1,000	
10,000,000	10,000,000							
116,483	116,483							
152,168	152,168							
<u>10,268,651</u>	<u>10,268,651</u>		<u>999,446</u>	<u>999,446</u>		<u>1,000</u>	<u>1,000</u>	
(10,262,209)	(10,262,209)		(320,847)	(320,847)		76	76	
9,999,992	9,999,992							
841,419	841,419		10,000,000	10,000,000				
300,000	300,000		250,000	250,000				
<u>11,141,411</u>	<u>11,141,411</u>		<u>10,250,000</u>	<u>10,250,000</u>				
879,202	879,202		9,929,153	9,929,153		76	76	
			638,881	638,881		3,028	3,028	
			23,354	23,354				
<u>\$879,202</u>	<u>\$879,202</u>	<u>\$0</u>	<u>\$10,591,388</u>	<u>\$10,591,388</u>	<u>\$0</u>	<u>\$3,104</u>	<u>\$3,104</u>	<u>\$0</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MAIMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS/FUND BALANCE  
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
<b>Operating Revenues:</b>			
Sales	\$313,911		\$313,911
Interest		\$1,668	1,668
Contributions and Donations		30	30
Total Operating Revenues	<u>313,911</u>	<u>1,698</u>	<u>315,609</u>
<b>Operating Expenses:</b>			
Salaries and Wages	146,603		146,603
Fringe Benefits	49,262		49,262
Purchased Services	4,120		4,120
Supplies and Materials	6,739		6,739
Cost of Sales	202,061		202,061
Other	1,535	3,000	4,535
Depreciation	996		996
Total Operating Expenses	<u>411,316</u>	<u>3,000</u>	<u>414,316</u>
Operating Loss	<u>(97,405)</u>	<u>(1,302)</u>	<u>(98,707)</u>
<b>Non-Operating Revenues:</b>			
Federal Donated Commodities	55,280		55,280
Interest	780		780
Federal and State Subsidies	54,158		54,158
Total Non-Operating Revenues	<u>110,218</u>		<u>110,218</u>
Income (Loss) Before Operating Transfer	12,813	(1,302)	11,511
Operating Transfers-In	<u>30,000</u>		<u>30,000</u>
Net Income (Loss)	42,813	(1,302)	41,511
Retained Earnings (Deficit)/Fund Balance at Beginning of Year	<u>(42,837)</u>	<u>34,119</u>	<u>(8,718)</u>
Retained Earnings (Deficit)/Fund Balance at End of Year	<u>(\$24)</u>	<u>\$32,817</u>	<u>\$32,793</u>

*See accompanying notes to the general purpose financial statements.*

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL  
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Enterprise Funds</u>			<u>Nonexpendable Trust Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>						
Sales	\$314,902	\$314,902				
Federal and State Subsidies	54,158	54,158				
Interest	780	780		\$1,668	\$1,668	
Contributions and Donations				30	30	
<b>Total Revenues</b>	<u>369,840</u>	<u>369,840</u>		<u>1,698</u>	<u>1,698</u>	
<b>Expenses:</b>						
Salaries and Wages	144,985	144,985				
Fringe Benefits	50,158	50,158				
Purchased Services	5,296	5,296				
Supplies and Materials	164,990	164,990				
Capital Outlay	140	140				
Other	1,535	1,535		5,000	5,000	
<b>Total Expenses</b>	<u>367,104</u>	<u>367,104</u>		<u>5,000</u>	<u>5,000</u>	
Excess of Revenues Over (Under) Expenses Before Advances and Transfers	2,736	2,736		(3,302)	(3,302)	
Advances Out	(30,000)	(30,000)				
Operating Transfers - In	30,000	30,000				
Excess of Revenues and Transfers Over (Under) Expenses and Advances	2,736	2,736		(3,302)	(3,302)	
Fund Equity at Beginning of Year	29,407	29,407		34,120	34,120	
Prior Year Encumbrances Appropriated	1,610	1,610				
<b>Fund Equity at End of Year</b>	<u>\$33,753</u>	<u>\$33,753</u>	<u>\$0</u>	<u>\$30,818</u>	<u>\$30,818</u>	<u>\$0</u>

*See accompanying notes to the general purpose financial statements.*

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAM EAST**

**COMBINED STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$314,902		\$314,902
Contributions and Donations		\$30	30
Cash Payments for Employee Services and Benefits	(195,143)		(195,143)
Cash Payments to Suppliers for Goods and Services	(169,235)		(169,235)
Other Operating Expenses	(1,535)	(2,500)	(4,035)
Net Cash Used In Operating Activities	<u>(51,011)</u>	<u>(2,470)</u>	<u>(53,481)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Federal and State Subsidies Received	54,158		54,158
Operating Transfers In	30,000		30,000
Advances Out	(30,000)		(30,000)
Net Cash Provided By Noncapital Financing Activities	<u>54,158</u>		<u>54,158</u>
<b>Cash Flows from Investing Activities:</b>			
Interest	780	1,668	2,448
Purchase of Investments		(600)	(600)
Net Cash Provided By Investing Activities	<u>780</u>	<u>1,068</u>	<u>1,848</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,927	(1,402)	2,525
Cash and Cash Equivalents Beginning of Year	<u>31,017</u>	<u>3,887</u>	<u>34,904</u>
Cash and Cash Equivalents End of Year	<u><u>\$34,944</u></u>	<u><u>\$2,485</u></u>	<u><u>\$37,429</u></u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:			
Operating Loss	(\$97,405)	(\$1,302)	(\$98,707)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:</b>			
Depreciation	996		996
Donated Commodities Used	55,280		55,280
Interest		(1,668)	(1,668)
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	991		991
Decrease in Inventory of Supplies and Materials	188		188
Increase in Inventory Held for Resale	(4,992)		(4,992)
Increase (Decrease) in Accounts Payable	(5,603)	500	(5,103)
Increase in Accrued Wages Payable	55		55
Decrease in Intergovernmental Payable	(2,084)		(2,084)
Increase in Compensated Absences Payable	1,563		1,563
Net Cash Used In Operating Activities	<u><u>(\$51,011)</u></u>	<u><u>(\$2,470)</u></u>	<u><u>(\$53,481)</u></u>
Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Funds to Balance Sheet			
Cash and Cash Equivalents-All Fiduciary Funds		\$56,438	
Cash and Cash Equivalents-Expendable Trust Funds and Agency Funds		<u>(53,953)</u>	
Cash and Cash Equivalents-Nonexpendable Trust Funds		<u><u>\$2,485</u></u>	

**Non-Cash Transactions:**

As of June 30, 2002, the School District had \$12,130 in Donated Commodities.

*See accompanying notes to the general purpose financial statements.*

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Miami East Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District was established in 1956 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 118 square miles. It is located in Miami County, and includes all of the Villages of Casstown and Fletcher; Brown, Elizabeth, Lostcreek and Staunton Townships; and portions of Springcreek and Bethel Townships. The School District is staffed by 56 non-certificated employees, 82 certificated full-time teaching personnel and 9 administrative employees who provide services to 1,328 students and other community members. The School District currently operates 5 instructional buildings.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Miami East Local School District, this includes general operations, food service, and student related activities of the School District.

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

The following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

**Village of Casstown** - The village government of Casstown is a separate body politic and corporate. A mayor and council are elected independent of any School District relationships and administer the provision of traditional village services. Council acts as the taxing and budgeting authority for these village services.

**Village of Fletcher** - The village government of Fletcher is a separate body politic and corporate. A mayor and council are elected independent of any School District relationships and administer the provision of traditional village services. Council acts as the taxing and budgeting authority for these village services.

**Parent Teacher Association** - The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)**

The School District is associated with three jointly governed organizations and one insurance purchasing pool. These organizations are presented in Notes 18 and 19 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association  
Southwestern Ohio Educational Purchasing Council  
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation - Fund Accounting**

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

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Governmental Fund Types:**

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

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

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

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

**Capital Projects 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 or trust funds).

**2. Proprietary Fund Type:**

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

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

**3. Fiduciary Fund Types:**

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4. Account Groups:**

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

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

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

**B. Measurement Focus and Basis of Accounting**

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

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year when the sources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will be not collected within the available period have also been reported as deferred revenue.

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

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

**C. Budgetary Data**

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The Public School Preschool Special Revenue Fund grant activity that is administered by a fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the object level within each fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Tax Budget:**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

**2. Estimated Resources:**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002. At year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

**3. Appropriations:**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, one supplemental appropriation was legally enacted. This amendment was significant, changing appropriations of \$9,770,500 by \$11,260,360 to \$21,030,860. Prior to year end, the School District passed appropriations to match expenditures plus encumbrances.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Ohio law prohibits having budgetary expenditures in excess of appropriations at the legal level of control. At May 31, various budgetary expenditures of the District exceeded appropriations.

**4. Encumbrances:**

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

Ohio law requires the fiscal officer to certify that the amount required for any expenditure that has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The District did not always obtain certification of the availability of funds prior to the expenditure of funds.

**5. Lapsing of Appropriations:**

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

**D. Cash and Cash Equivalents**

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

The balance of the Public School Preschool Special Revenue Fund administered by the fiscal agent is presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits of the Miami County Educational Service Center.

The General Fund monies presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents" represents proceeds from sale of Anthem stock that is deposited at the EPC.

Investments that are held separately by the nonexpendable trust funds are recorded on the balance sheet as "Investments in Segregated Accounts".

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During fiscal year 2002, investments were limited to a repurchase agreement, certificates of deposit, STAR Ohio, a money market fund, and U.S. Treasuries.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposits are reported at cost.

The School District has invested funds in the State Treasury Assets Reserve of Ohio (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$85,716 which includes \$27,240 assigned from other School District funds.

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

**E. Inventory**

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**G. Restricted Assets**

Restricted assets in the General Fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent unexpended revenues restricted for amounts required by statute to be set-aside by the School District for the purchase of textbooks. See Note 22 for additional information regarding set-asides.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Fixed Assets and Depreciation**

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

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of several fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of fifteen years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**I. Compensated Absences**

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

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

For governmental funds, current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term debt 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 considered not to have been paid using current available financial resources. General obligation bonds are recorded as a liability of the General Long Term Debt Account Group until due.

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

**K. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**L. Estimates**

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

**M. Fund Balance Reserves and Designations**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. The School District also designates a portion of fund balance to indicate tentative plans for future financial resource uses that reflect managerial plans or intent. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory of supplies and materials, property taxes, endowments, and textbook and instructional materials. A fund designation has also been established for capital acquisitions. The designation for capital acquisition represents monies set aside for capital acquisition in excess of statutory requirements.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for contributions signifies the legal restrictions on the use of principal.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Contributed Capital**

Contributed capital represents resources from other funds, federal and state grants, other governments and private sources provided to the School District's enterprise funds which are not subject to repayment. These assets are recorded at their fair market value on the date donated. Beginning in Fiscal Year 2001, GASB Statement No. 33 requires that these types of contributions be recognized as revenue. Depreciation on these assets acquired or constructed with contributed capital is expensed and closed to unreserved retained earnings at year end.

Because the School District, prior to 1995, had not prepared its financial statements in accordance with generally accepted accounting principles, the exact amount of contributed capital pertaining to years prior 1995 cannot be determined. Consequently, only those amounts that have been able to be identified specifically have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to the enterprise funds have been classified as retained earnings.

**O. Compounded Interest on Capital Appreciation Bonds**

Capital appreciation bonds are accreted each year for the compounded interest accrued during the year. The compounded interest on the capital appreciation bonds are presented as an addition of the face amount of the bonds payable.

**P. Total Columns on General Purpose Financial Statements**

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

**3. ACCOUNTABILITY**

At June 30, 2002, the Title I and Title VI-R Special Revenue Funds and the Food Service Enterprise Fund had deficit fund balance/retained earnings of \$308, \$1,251 and \$895. The deficit in the Title I and Title VI-R Special Revenue Funds was created by the application of generally accepted accounting principles. The deficit in the Food Service Enterprise Fund is a result of accumulated losses. The School District is analyzing food operations to determine appropriate steps to alleviate the deficit. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type and Nonexpendable Trust Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. Principal payments on revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. The School District does not budget for the activities of various grants and proceeds administered by the fiscal agent who collects and holds the assets. However, the activities of the fiscal agent that pertain to Miami East Local School District are included in the special revenue funds and the general fund for GAAP reporting purposes.
6. Advances are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING (Continued)**

<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Expendable Trust Fund</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Expendable Trust</b>
GAAP Basis	\$47,969	(\$8,287)	\$879,202	\$10,649,253	\$576
Revenue Accruals	(112,390)	1,226	0	(14,055)	0
Expenditure Accruals	(44,979)	7,881	0	42,545	0
Prepaid Items	9,679	0	0	0	0
Loan Principal Payments	(35,000)	0	0	0	0
Advances	30,000	0	0	0	0
Excess of Revenues Over Expenditures for Nonbudgeted Funds	(98,952)	290	0	0	0
Change in Fair Value of Investments	0	0	0	32,514	0
Encumbrances	<u>(237,701)</u>	<u>(18,558)</u>	<u>0</u>	<u>(781,104)</u>	<u>(500)</u>
Budget Basis	<u>(\$441,374)</u>	<u>(\$17,448)</u>	<u>\$879,202</u>	<u>\$9,929,153</u>	<u>\$ 76</u>
			<b>Enterprise</b>	<b>Nonexpendable Trust</b>	
GAAP Basis			\$42,813	(\$1,302)	
Revenue Accruals			991	0	
Expense Accruals			(15,677)	500	
Inventory of Supplies and Materials			(188)	0	
Inventory Held for Resale			4,992	0	
Depreciation Expense			996	0	
Advances			(30,000)	0	
Encumbrances			<u>(1,191)</u>	<u>(2,500)</u>	
Budget Basis			\$ 2,736	(\$3,302)	

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**5. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

Interim monies may be 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 security 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

At June 30, 2002, the School District had "Cash and Cash Equivalents with Fiscal Agents" in the General Fund of \$98,952. The money is held by the EPC, which is the fiscal agent of several other school districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The classification for the EPC as a whole can be obtained by writing to Robert Brown, who serves as director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Deposits:** At fiscal year end, the carrying amount of the School District's deposits was \$1,312,233 and the bank balance was \$1,452,298. Of the bank balance:

1. \$130,832 was covered by federal depository insurance; and
2. \$1,321,466 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District held to a successful claim by the Federal Deposit Insurance Corporation.

**Investments:** Statutory provisions require that the School Treasurer holds all securities acquired by the School District or deposit them with a qualified trustee. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counter party is a designated depository of the School District for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the Treasurer withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The School District does not purchase any specific security in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires the School District to categorize investments to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Category 3	Unclassified	Carrying/ Fair Value
Repurchase Agreements	\$0	\$963,959	\$0	\$963,959
Star Ohio	0	0	1,801,705	1,801,705
Money Market Fund	1,470,242	0	0	1,470,242
Federal Home Loan Mortgage Corporation (FHLMC) Notes	2,760,124	0	0	2,760,124
Federal Home Loan Bank Bonds	3,710,807	0	0	3,710,807
Federal National Mortgage Association (FNMA) Notes	2,173,113	0	0	2,173,113
<b>Total</b>	<b>\$10,114,286</b>	<b>\$963,959</b>	<b>\$1,801,705</b>	<b>\$12,879,950</b>

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

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented per GASB Statement No. 3 is as follows:

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

	<b>Cash and Cash Equivalents/ Deposits</b>	<b>Investments</b>
GASB Statement 9	\$14,260,303	\$30,832
Cash and Cash Equivalents with Fiscal Agent	(98,952)	0
Investments of the Cash Management Pool:		
Certificates of Deposit	30,832	(30,832)
STAR Ohio	(1,801,705)	1,801,705
Repurchase Agreement	(963,959)	963,959
Money Market Fund	(1,470,242)	1,470,242
Federal Home Loan Mortgage Corporation (FHLMC) Notes	(2,760,124)	2,760,124
Federal Home Loan Bank Bonds	(3,710,807)	3,710,807
Federal National Mortgage Association (FNMA) Notes	(2,173,113)	2,173,113
GASB Statement 3	<u>\$1,312,233</u>	<u>\$12,879,950</u>

**6. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) is for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. PROPERTY TAXES (Continued)**

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$112,390,650	82.63%	\$122,831,160	82.54%
Public Utility Real	31,510	0.02	29,580	0.02
Tangible Personal Property	23,603,180	17.35	25,958,620	17.44
<b>Total Assessed Value</b>	<b>\$136,025,340</b>	<b>100.00%</b>	<b>\$148,819,360</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$44.08		\$44.08	

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2002 was \$178,555 in the General Fund and \$24,716 in the Permanent Improvement Capital Projects Fund.

**7. INCOME TAX**

The School District levies a voted tax of 0.5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**8. RECEIVABLES**

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

	<u>AMOUNTS</u>
General Fund	
Homestead and Rollback	\$30
Refund from EPC	1,280
SF3 Adjustment	3,582
SF3 Refund	1,268
Miami Valley CTC Sub Reimbursement	<u>140</u>
	<u>\$6,300</u>
Special Revenue Funds	
Title II	\$524
Title VI-B	1,440
Title I	<u>1,372</u>
	<u>3,336</u>
Grand Total	<u>\$9,636</u>

**9. FIXED ASSETS**

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

Furniture and Equipment	\$145,767
Less Accumulated Depreciation	<u>(137,196)</u>
Net Fixed Assets	<u><u>\$8,571</u></u>

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

Asset Category	Balance at 6/30/2001	Additions	Deletions	Balance at 6/30/2002
Land and Improvements	\$893,150	\$9,295	\$0	\$895,774
Construction in Progress	0	44,496	0	44,496
Buildings and Improvements	1,258,140	5,750	0	1,263,890
Furniture, Fixtures and Equipment	1,748,842	134,840	94,349	1,789,333
Vehicles	<u>1,173,531</u>	<u>114,028</u>	<u>153,252</u>	<u>1,134,307</u>
Totals	<u><u>\$5,073,663</u></u>	<u><u>\$308,409</u></u>	<u><u>\$254,272</u></u>	<u><u>\$5,127,800</u></u>

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**10. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Nationwide Insurance Company for property, fleet and inland marine coverage. The School District contracted with the Ohio School Plan for liability insurance. Coverage provided by both plans is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$ 24,730,300
Inland Marine Coverage (\$100 deductible)	750,624
Crime Insurance	20,000
Automobile Liability (No deductible)	1,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Umbrella	1,000,000
Fire Damage Limit (Any one fire)	10,000
Medical Expense Limit (Any one person)	5,000

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

**B. Workers' Compensation**

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Health Systems, Inc. provides administrative, cost control, and actuarial services to the GRP.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$46,935, \$37,735, and \$45,768, respectively; 52 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$32,896 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term debt account group.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$376,467, \$376,570, and \$214,584, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$64,139 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. DEFINED BENEFIT PENSION PLANS (Continued)**

**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 System/State Teachers Retirement System. As of June 30, 2002, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining Board members contribute to SERS.

**12. POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$178,327 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 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 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$123,291.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**12. POSTEMPLOYMENT BENEFITS (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**13. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation, personal leave, sick leave, and compensatory time components are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Personal leave is accrued at three days per year for all employees under contract for a full school year. Unused personal leave accumulates to a maximum of five days. Classified employees may be granted compensatory time for hours worked outside their regular business day. Unused compensatory time accumulates to a maximum of 40 hours.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 266 days for all certified personnel and 228 days for all classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, not to exceed 48 days except when retiring in the 30th year of cumulative experience the total shall not exceed 57 days.

**B. Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through the Horace Mann Life Insurance Company. The School District also provides medical insurance through Anthem Blue Cross and Blue Shield, dental insurance through CoreSource, and vision insurance through Vision Insurance Plan to all eligible employees.

**14. FUND OBLIGATION**

On June 30, 1995, the School District entered into a seven year \$245,000 energy conservation loan for the purpose of implementing energy conservation measures at various School District buildings. This loan will be repaid with property tax revenue allocated from the General Fund. This loan is backed by the full faith and credit of the School District. The energy conservation loan has been reported in and was paid from the General Fund, the fund which had received the proceeds. The Energy Conservation Loan had \$35,000 encumbered for principal payments in the General Fund at year end.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**14. FUND OBLIGATION (Continued)**

The School District's loan activity, including amount outstanding and interest rate follow:

	Principal Outstanding 6/30/2001	Additions	Deductions	Principal Outstanding 6/30/2002
Energy Conservation Loan 1995 5.42%	\$70,000	\$0	\$35,000	\$35,000

**15. LONG-TERM OBLIGATIONS**

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

	Amount Outstanding 6/30/2001	Additions	Deductions	Amount Outstanding 6/30/2002
<b>Long-Term Debt</b>				
2.41%-2002 School Improvement Note	\$0	\$10,000,000	\$10,000,000	\$0
2.85-5.125%-2002 School Improvement Bond	0	10,002,941	0	10,002,941
<b>Total Long-Term Debt</b>	<b>0</b>	<b>20,002,941</b>	<b>10,000,000</b>	<b>10,002,941</b>
<b>Other Long-Term Obligations</b>				
Intergovernmental Payable	55,384	60,757	55,384	60,757
Compensated Absences	595,058	18,623	0	613,681
<b>Total Other Long-Term Obligations</b>	<b>650,442</b>	<b>79,380</b>	<b>55,384</b>	<b>674,438</b>
<b>Total General Long-Term Obligations</b>	<b>\$650,442</b>	<b>\$20,082,321</b>	<b>\$10,055,384</b>	<b>\$10,677,379</b>

On December 12, 2001 the School District entered into a six month \$10,000,000 bond anticipation note for the purpose of constructing a new school building. This note was repaid on June 6, 2002 with the proceeds of the bond issue. On June 1, 2002 the School District entered into a 27 year \$9,999,992 general obligation bond. The bond will be repaid with property tax revenue allocated from the General Fund and the Permanent Improvement Capital Projects Fund. The note and the bond were backed by the full faith and credit of the School District. The note was paid from the Debt Service Fund.

The bonds on the financial statements reflect the principal amount of \$9,999,992 along with the capital appreciation bond accretion \$2,949 for a total of \$10,002,941.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**15. LONG-TERM OBLIGATIONS (Continued)**

The bonds consist of \$5,405,000 in serial bonds, \$4,390,000 in term bonds, and \$204,992 in capital appreciation bonds. The term bonds maturing on December 1, 2025 will be subject to mandatory sinking fund redemption on December 1 as follows:

Year	Amount to be Redeemed
2023	\$540,000
2024	565,000

Unless otherwise called for redemption, the remaining \$595,000 principal amount of the bonds due December 1, 2025 is to be paid at stated maturity.

The bonds maturing on December 1, 2013 and thereafter are subject to optional redemption, in whole or in part in on any date in any order of maturity as determined by the Board of Education and by lot within a maturity, at the option of the Board of Education or after June 1, 2012 at par, which is 100% of the face value of the bonds.

If fewer than all of the outstanding bonds of a single maturity are called for redemption, the selection of the bonds to be redeemed, or portions thereof in amount of \$5,000 or any integral multiple thereof, will be made by lot. In the case of a partial redemption of bonds when bonds of denominations greater than \$5,000 are outstanding, each \$5,000 unit of face value of principal thereof will be treated as though it were a separate bond of the denomination of \$5,000. If one or more, but not all, of such \$5,000 units of face value represented by a bond are to be called for redemption, then upon notice of redemption of a \$5,000 unit or units, the registered holder of that bond will surrender the bond (a) for payment of the redemption price for the \$5,000 unit or units of face value called for redemption (including without limitation, the interest accrued to the date fixed for redemption and any premium), and (b) for issuance, without charge to the registered holder thereof, of a new bond or bonds of the same series, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturity on the same date as, the bond surrendered.

Bonds maturing in the fiscal years 2009 through 2013 were issued as capital appreciation bonds, which mature in the principal amounts on the dates and will bear interest compounded semiannually on June 1 and December 1 of each year beginning in 2002; at the compounding rates per year. The compounded interest on the capital appreciation bonds is reflected as an addition to the revenue bonds payable. During fiscal year 2002, the bonds were accreted \$2,949 for a balance at June 30, 2002, of \$207,941. The maturity amount of the capital appreciation bonds is \$1,750,000.

The School Improvement Bonds will be paid through the Debt Service Fund. The bond issue will be paid with property tax revenue from a voted levy and operating transfers from the General Fund. They are backed by the full faith and credit of the School District. In the event that a property owner fails to make payments, the School District will be required to pay the debt.

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid.

The intergovernmental payable represents contractually required pension contributions paid outside the available period.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**15. LONG-TERM OBLIGATIONS (Continued)**

The School District's voted legal debt margin was \$4,272,952, energy conservation debt margin was \$1,304,374, and an unvoted debt margin of \$148,819 at June 30, 2002.

Principal and interest requirements to retire the School District's general obligation bond outstanding at June 30, 2002, were as follows:

Fiscal Year	Principal	Interest
2003	\$0	\$231,895
2004	0	463,790
2005	295,000	463,790
2006	305,000	455,383
2007	315,000	445,470
2008-2012	817,637	2,986,975
2013-2017	1,155,304	2,644,479
2018-2022	2,215,000	1,583,872
2023-2027	2,830,000	972,563
2028-2030	2,070,000	215,763
Total	10,002,941	10,463,980

Changes in the long-term obligations reported in the Enterprise Funds during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/2001	Additions	Deductions	Amount Outstanding 6/30/2002
Intergovernmental Payable	\$18,513	\$16,429	\$18,513	\$16,429
Compensated Absences	\$15,315	1,563	0	16,878
Total General Long-Term Obligations	\$33,828	\$17,992	\$18,513	\$33,307

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**16. CONTRACTUAL COMMITMENTS**

As of June 30, 2002, the School District had contractual purchase commitments as follows:

<b>Contractor</b>	<b>Project</b>	<b>Contract Amount</b>	<b>Amount Expended</b>	<b>Balance at 6-30-02</b>
Buehrer Group Architect	Architectural/Engineering Services	\$719,928	\$35,596	\$684,332
Peck Shaffer & Williams LLP	Construction Attorney Services	28,000	6,185	21,815
JMD Architectural	Doors/Installation	11,130	0	11,130
Rieck Mechanical Services	Air Conditioner Unit/Pump	7,111	0	7,111
<b>Total</b>		<b>\$766,169</b>	<b>\$41,781</b>	<b>\$724,388</b>

The School District will be authorizing additional contracts in the future as the new building project progresses. This is a \$10,000,000 project.

**17. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

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

	<b>Food Service</b>	<b>Uniform School Supplies</b>	<b>Total Enterprise Funds</b>
Operating Revenues	\$272,454	\$41,457	\$313,911
Depreciation Expense	996	0	996
Operating Income (Loss)	(93,884)	(3,521)	(97,405)
Federal Donated Commodities	55,280	0	55,280
Interest	780	0	780
Federal and State Subsidies	54,158	0	54,158
Advances Out	30,000	0	30,000
Operating Transfers In	30,000	0	30,000
Net Income (Loss)	46,334	(3,521)	42,813
Fixed Asset Deletions	3,958	0	3,958
Net Working Capital (Deficit)	12,172	871	13,043
Total Assets	57,953	2,119	60,072
Long-Term Compensated Absences Payable	16,878	0	16,878
Total Equity (Deficit)	3,865	871	4,736
Encumbrances Outstanding at June 30, 2002	\$1,191	\$0	\$1,191

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**18. JOINTLY GOVERNED ORGANIZATIONS**

**Metropolitan Dayton Educational Cooperative Association** - The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment for administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Education Service Center. The School District paid MDECA \$39,250 for services provided during the year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

**Southwestern Ohio Educational Purchasing Council** - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the Council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2002, Miami East Local School District paid \$2,809 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representatives after nominating committee nominates individuals to run. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher educational representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2002, the School District paid \$3,218 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**19. INSURANCE PURCHASING POOL**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, the Superintendent from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**20. CONTINGENCIES**

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

**21. SCHOOL FUNDING COURT DECISION**

On September 6, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that requires modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2002, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001 asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. This case is now under reconsideration by the Court.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**22. SET-ASIDE CALCULATIONS**

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

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

	<u>Textbooks</u>	<u>Capital Acquisitions</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2001	\$107,936	\$0	\$107,936
Current Year Set-aside Requirement	190,432	190,432	380,864
Current Year Offsets	0	(390,380)	(390,380)
Qualifying Disbursements	<u>(155,417)</u>	<u>0</u>	<u>(155,417)</u>
Total	<u>\$142,951</u>	<u>(\$199,948)</u>	<u>(\$56,997)</u>
Cash Balance carried forward to FY 2002	<u>\$142,951</u>	<u>\$0</u>	<u>\$142,951</u>

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

**23. SUBSEQUENT EVENTS**

**A. Deferred Compensation Plan**

School District certified and central office employees may participate in a statewide deferred compensation plan effective July 1, 2002. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**B. Final Debt Payment**

On July 1, 2002 final payment was made on the 1995 Energy Conservation Loan.

**C. Issuance of New Debt**

On November 6, 2001 the electors of the School District approved the issuance of bonds in the principal amount of \$12,000,000 and the levy of taxes to pay principal and interest. The School District plans to issue the remaining \$2,000,000 in debt in the fiscal year 2003.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**23. SUBSEQUENT EVENTS (Continued)**

**D. Outstanding Purchase Commitments**

As of September 23, 2002, the School District had contractual purchase commitments as follows:

<u>Contractor</u>	<u>Project</u>	<u>Contract Amount</u>
Centar Industries Inc.	Locker Replacement	\$10,650
Paxton Communications	Repeater System	6,000
Wenco Inc.	Viking Hall Addition	176,383
Copp Systems Integrator	Update Sound System	5,709
Total		\$198,742

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
www.auditor.state.oh.us

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

Miami East Local School District  
Miami County  
3825 North State Route 589  
Casstown, Ohio 45312

To the Board of Education:

We have audited the financial statements of Miami East Local School District (the District), Miami County, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10355-001, 2002-10355-002, and 2002-10355-003.

**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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10355-004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness. We also 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 October 31, 2002.

Miami East Local School District  
Miami County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

October 31, 2002

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2002**

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

**FINDING NUMBER 2002-10355-001**

**Non-Compliance Citation**

**Ohio Rev. Code Section 149.351** states all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Section 149.41, Revised Code.

Supporting documentation for ticket sales to the Performing Arts play, Elementary class lunchroom sales, High School and Junior High student fee schedules were destroyed without following proper procedures by the food service staff, student activity advisors and building secretaries. District personnel should retain all records according to the approved retention schedule. Supervisors should monitor records retention to comply with this section of code.

**FINDING NUMBER 2002-10355-002**

**Non-Compliance Citation**

**Ohio Rev. Code Section 5705.41 (B)**, states that a subdivision or taxing unit shall not expend funds until they have been appropriated. Our review of expenditures for the month of May 2002, noted that the School District had expenditures that exceeded appropriations at the fund, function, object level, which is the legal level of control adopted by the Board of Education. Fund expenditures which exceeded appropriations were as follows:

Fund	Amount Appropriated	Encumbered And Expended	Unfavorable Variance
General Fund			
Support Service-Board of Ed - Miscellaneous	\$ 62,402	\$326,097	\$263,695
Food Service Fund			
Food Service Operations:			
Supplies & Materials	117,563	166,963	49,400
Uniform School Supplies:			
Regular Instruction – Supplies & Materials	39,596	43,525	3,929
Public School Support:			
Support Service-Pupils – Miscellaneous	5,950	21,680	15,730
Support Service-Administration –	11,800	41,666	29,866
Miscellaneous			
Classroom Facilities:			
Building Acquisition - Construction	0	756,428	756,428

In addition to the items referred to above, we noted other instances of noncompliance for the period examined.

To comply with the above referenced section of code, the District should monitor financial reports to compare budgetary expenditures with appropriations. In instances where appropriations are insufficient to meet projected needs, the Board of Education should pass a resolution to amend appropriations, or reduce anticipated spending.

**FINDING NUMBER 2002-10355-003**

**Non-Compliance Citation**

**Ohio Rev. Code Section 5705.41(D)** states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

This section also provides an exception to this requirement:

If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000, the taxing authority must approve of such payment within thirty days of the date of the fiscal officer's certification.

The District did not comply with the certification requirements and did not fulfill the requirements of the exception for 49% of tested transactions. The District should implement policies and procedures to comply with the certification requirement

**FINDING NUMBER 2002-10355-004**

**Reportable Condition – Grant Compliance**

Grant funds should be spent according to the signed agreement between the District and the grantor agency. The District should monitor compliance with specific requirements for each grant. The District used Drug Free, Title VI and Eisenhower Professional Development grant funds for a summer retreat for elementary teachers and principals. The Drug Free Grant application did not specify staff training as an allowable expenditure. The Title VI and Eisenhower Professional Development grants are part of a consolidated local plan grant application. This consolidated plan allows the expenditure, provided that a post seminar survey is completed. Additionally, a report must be presented to the board of education detailing the effectiveness of the curriculum alignment process as it relates to student performance. No survey, or report to the Board of Education was completed. Tested expenditures from these grants totaled \$6,558. Compliance with the grant requirements was not monitored by District personnel. Non-compliance with approved grant plans could jeopardize future federal and state funding. In addition, the District could be required to repay the grantor agencies for unallowable expenditures.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2001-10355-001	Ohio Rev. Code Section 5705.41 (B), having budgetary expenditures in excess of appropriations at the legal level of control.	No	Not corrected. Reissued as Finding No. 2002-10355-002.
2001-10355-002	Ohio Rev. Code Section 5705.41 (D), treasurer not certifying funds are available.	No	Not corrected. Reissued as Finding No. 2002-10355-003.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

**MIAMI EAST LOCAL SCHOOL DISTRICT**

**MIAMI 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  
NOVEMBER 21, 2002**