



**Auditor of State
Betty Montgomery**

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Miami East Local School District, Miami County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Miami East Local School District, Miami County, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

November 19, 2004

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of Miami East Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$300,220, which represents a 5.96 percent decrease from 2003.
- General revenues accounted for \$8,876,087 in revenue or 83.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, interest, and contributions, and capital grants, interest, and contributions accounted for \$1,740,570 or 16.4 percent of total revenues of \$10,616,657.
- Total assets of governmental activities increased by \$1,028,930 as investments decreased by \$8,168,745 and capital assets increased by \$11,928,940.
- The School District had \$10,916,877 in expenses; only \$1,740,570 of these expenses was offset by program specific charges for services, grants, interest, or contributions. General revenues (primarily taxes and grants and entitlements) of \$8,876,087 plus net assets at the beginning of year of \$5,036,586 provided for these programs.

The general fund had \$8,987,061 in revenues and \$8,875,214 in expenditures. The general fund's balance decreased \$140,302 over 2003.

Using the Basic Financial Statements

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, bond retirement fund, and the classroom facilities fund.

Governmental Funds

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

	Table 1	2003	2004
	Net Assets	<u>2003</u>	<u>2004</u>
Assets:			
Current and Other Assets		\$18,833,978	\$7,933,968
Capital Assets		3,266,531	15,195,471
Total Assets		<u>22,100,509</u>	<u>23,129,439</u>
Liabilities:			
Long-Term Liabilities		10,827,631	10,927,283
Other Liabilities		6,236,292	7,465,790
Total Liabilities		<u>17,063,923</u>	<u>18,393,073</u>
Net Assets:			
Invested in Capital Assets, Net of Debt		3,266,531	3,827,440
Restricted		2,085,384	1,495,401
Unrestricted (deficit)		(315,329)	(586,475)
Total Net Assets		<u><u>\$5,036,586</u></u>	<u><u>\$4,736,366</u></u>

Total assets of governmental activities increased by \$1,028,930 as investments decreased by \$8,168,745 and capital assets increased by \$11,928,940. Investments decreased due to construction in progress of the new K-8 building project. Capital assets increased due to construction in progress for various school improvements along with purchases of computer equipment. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$271,146, mainly because the School District spent more in fiscal year 2004 than what was taken in for revenue. The School District's major industry reduced its workforce significantly, reducing income tax revenues. Also, that industry reduced its inventory substantially, thereby reducing the School District's tangible personal property tax revenue. Accrued wages and benefits payable increased from fiscal year 2003, thus reducing unrestricted net assets in the general fund.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2
Changes in Net Assets**

	2004
Revenues	
Program Revenues:	
Charges for Services	\$860,942
Operating Grants, and Contributions	766,807
Capital Grants, and Contributions	112,821
Total Program Revenues	1,740,570
General Revenues:	
Property Taxes	3,085,802
Income Tax	646,872
Grants and Entitlements	5,074,329
Other	69,084
Total General Revenues	8,876,087
Total Revenues	10,616,657
Program Expenses	
Instruction:	
Regular	4,617,374
Special	847,246
Vocational	130,278
Support Services:	
Pupils	\$481,081
Instructional Staff	387,793
Board of Education	82,228
Administration	903,345
Fiscal	321,714
Business	31,768
Operation and Maintenance of Plant	771,765
Pupil Transportation	775,096
Central	247,981
Operation of Non-Instructional Services	391,929
Extracurricular Activities	378,791
Interest and Fiscal Charges	548,488
Total Expenses	10,916,877
Decrease in Net Assets	(\$300,220)

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 29.1 percent of revenues for governmental activities for the Miami East Local School District for fiscal year 2004.

Instruction comprises 51.2 percent of district expenses. Support services expenses make up 36.7 percent of the expenses. Administration and fiscal/business services comprise 11.5% of district expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2003 have not been made because they are not available.

Table 3

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$5,594,898	\$4,658,485
Support Services:		
Pupils	481,081	350,551
Instructional Staff	387,793	309,025
Board of Education	82,228	82,228
Administration	903,345	894,161
Fiscal	321,714	302,715
Business	31,768	31,768
Operation and Maintenance of Plant	771,765	771,765
Pupil Transportation	775,096	725,846
Central	247,981	216,579
Operation of Non-Instructional Services	391,929	16,953
Extracurricular Activities	378,791	267,743
Interest and Fiscal Charges	548,488	548,488
Total Expenses	\$10,916,877	\$9,176,307

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the district.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expense related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment, and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Instruction activities are supported through taxes and other general revenues by 83.3 percent; for all activities general revenue support is 84.1 percent.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,586,392 and expenditures of \$22,759,975. The net change in fund balances for the year in the general fund, the bond retirement fund and the classroom facilities fund were (\$140,302), (\$393,302), and (\$11,384,258), respectively.

The net change in fund balance was caused in the general fund by increases in expenditures, particularly capital outlay and wages.

General Fund Budgeting Highlights

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

During the course of the fiscal year 2004, the School District amended its general fund budget, which resulted in appropriations increasing \$60,377, a .7 percent increase.

The Board of Education and the administration make dollars available to offer a comprehensive academic curriculum with a wide range of academic choices such as: gifted education, vocational programs, and college preparatory. The School District also provides speech and language therapy, as well as psychological services and counseling. The School District offers opportunities for students to participate in a wide range of extracurricular activities. The School District's mission is "Educating Today for Tomorrow's Success. This goal is kept in mind at the time budgets are created and when final expenditures are made. This mission statement guides the School District in all phases of operation.

For the general fund, the budget basis revenue differed from the original budgeted estimates of \$8,308,099 by \$723,114 to \$9,031,213.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

During fiscal year 2004, the School District originally budgeted \$2,768,860 and \$4,515,239 for property taxes and intergovernmental revenues, respectively. The School District received \$2,668,718 in property taxes revenue, while the School District received \$5,335,709 in intergovernmental revenue. Property tax revenues had a negative variance for the fiscal year when comparing the original budget to what was actually received. The majority of the negative variance was due to the decrease in tangible personal property tax as a result of the School District's largest company reducing its inventory by 75%.

Capital Assets

At the end of the fiscal year 2004, the School District had \$15,195,471 invested in land, land improvements, construction in progress, buildings and improvements, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

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

	2003	2004
Land	\$259,540	\$259,540
Construction in Progress	656,223	12,705,520
Land Improvements	382,020	355,608
Buildings and Improvements	833,142	793,514
Furniture, Fixtures and Equipment	495,432	561,814
Vehicles	640,174	519,475
Totals	\$3,266,531	\$15,195,471

Overall capital assets increased \$11,928,940 from fiscal year 2003 to fiscal year 2004. Increases in capital assets (primarily construction in progress and furniture, fixtures, and equipment) were offset by depreciation expense for the year. The construction in progress relates to the various school improvements made possible mainly due to the issuance of debt during fiscal year 2004. The majority of equipment purchased during fiscal year 2004 was for new computer equipment throughout the School District.

At fiscal year end, the School District had contractual commitments with various vendors with a balance of \$1,658,753. For more information on capital assets, refer to Notes 10 and 21 of the basic financial statements.

Debt Administration

At June 30, 2004, the School District had \$12,103,896 in total outstanding debt of bonds and loans. This figure includes accretion on capital appreciation notes. At June 30, 2004, the School District's overall legal debt margin was \$732,652 and the unvoted debt margin was \$141,050. For more information on debt administration, refer to Notes 15 and 16 of the basic financial statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Current Financial Issues and Concerns

The School District is proud of its community support of the public schools. The building facilities project as well as the other permanent improvement projects in progress will help keep the School District facilities in excellent physical condition and allow the Board of Education and administration to provide a stable and safe environment for students to learn. The Board of Education recognizes the expectations of the community and has allocated the resources to meet these expectations. The School District had a major company move its operations out of state, and several small companies relocate to other counties in the area. The full impact of the lost revenues will be felt in fiscal year 2005. Along with the decline in the industrial tax base, the School District is experiencing a declining enrollment. These two factors along with state budget cuts contributed to the decline in revenue from fiscal year 2003 to fiscal year 2004. The Board of Education and administration will be carefully weighing their options in order to prudently provide the necessary resources for student success now and in the future. The School District will be closely watching the five-year forecast and updating it when new information becomes available.

In comparison to other school districts in the state, the Miami East Local School District would not be considered a School District suffering from low wealth. Therefore, the Miami East Local School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. Both scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

During the 2004-05 school year, Miami East received assessment documents from the Ohio Facilities Commission. A committee was established to review meaningful plans for repair and/or replacement of buildings. The aforementioned classroom facilities fund has been set forth to set-aside monies for potential projects.

In conclusion, the Miami East Local School District has committed itself to financial excellence for many years. The School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future and to provide the best educational opportunities to its children.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Michael R. Sommer, Treasurer at Miami East Local School District, 3825 North State Route 589, Casstown, Ohio 45312-9707 or email at me_treas@mdeca.org.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,772,035
Cash and Cash Equivalents with Fiscal Agents	262,671
Accounts Receivable	8,594
Intergovernmental Receivable	174,673
Materials and Supplies Inventory	24,553
Prepaid Items	41,136
Income Taxes Receivable	289,465
Property and Other Local Taxes Receivable	3,360,841
Non Depreciable Capital Assets	12,965,060
Depreciable Capital Assets, Net	<u>2,230,411</u>
 Total Assets	 <u>23,129,439</u>
LIABILITIES:	
Accounts Payable	51,042
Accrued Wages and Benefits	687,894
Contracts Payable	823,065
Intergovernmental Payable	336,878
Accrued Interest Payable	41,038
Retainage Payable	262,671
Deferred Revenue	3,239,818
Notes Payable	2,000,000
Matured Compensated Absences Payable	23,384
Long-Term Liabilities:	
Due Within One Year	426,810
Due in More Than One Year	<u>10,500,473</u>
 Total Liabilities	 <u>18,393,073</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	3,827,440
Restricted for Debt Service	2,838
Restricted for Capital Outlay	1,190,951
Restricted for Other Purposes	83,550
Restricted for Set Asides	218,062
Unrestricted (Deficit)	<u>(586,475)</u>
 Total Net Assets	 <u><u>\$ 4,736,366</u></u>

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Program Revenues	
Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:		
Instruction:		
Regular	\$4,617,374	\$352,268
Special	847,246	381,625
Vocational	130,278	33,380
Support Services:		
Pupils	481,081	86,494
Instructional Staff	387,793	78,768
Board of Education	82,228	
Administration	903,345	8,950
Fiscal	321,714	16,996
Business	31,768	
Operation and Maintenance of Plant	771,765	
Pupil Transportation	775,096	27,238
Central	247,981	8,970
Operation of Non-Instructional Services	391,929	267,457
Extracurricular Activities	378,791	92,569
Interest and Fiscal Charges	548,488	
Total Governmental Activities	\$10,916,877	\$860,942

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Capital Outlay

Property Taxes, Levied for Debt Service

Income Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements.

Program Revenues	Net (Expense) Revenue and Changes in Net Assets
<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
\$107,256	(\$4,095,966)
	(465,621)
	(96,898)
	(350,551)
	(309,025)
	(82,228)
	(894,161)
2,003	(302,715)
	(31,768)
	(771,765)
2,505	(725,846)
1,057	(216,579)
	(16,953)
	(267,743)
	(548,488)
<u>\$112,821</u>	<u>(9,176,307)</u>
	2,651,870
	342,695
	91,237
	646,872
	5,074,329
	20,998
	48,086
	<u>8,876,087</u>
	(300,220)
	<u>5,036,586</u>
	<u>\$4,736,366</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>GENERAL</u>	<u>BOND RETIREMENT</u>	<u>CLASSROOM FACILITIES</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>Total Governmental Funds</u>
ASSETS:					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ 713,419	\$ 35,126	\$ 2,207,008	\$ 598,420	\$ 3,553,973
Cash and Cash Equivalents with Fiscal Agents			253,468	9,203	262,671
Materials and Supplies Inventory	21,647			2,906	24,553
Accounts Receivable	3,905			4,689	8,594
Interfund Receivable	153,765				153,765
Intergovernmental Receivable	4,387			170,286	174,673
Prepaid Items	39,593		1,543		41,136
Income Taxes Receivable	289,465				289,465
Property and Other Local Taxes Receivable	2,831,466	166,682		362,693	3,360,841
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	218,062				218,062
Total Assets	<u>\$ 4,275,709</u>	<u>\$ 201,808</u>	<u>\$ 2,462,019</u>	<u>\$ 1,148,197</u>	<u>\$ 8,087,733</u>
LIABILITIES:					
Current Liabilities:					
Accounts Payable	45,310		966	4,766	51,042
Accrued Wages and Benefits	646,700			41,194	687,894
Contracts Payable			653,162	169,903	823,065
Interfund Payable				153,765	153,765
Intergovernmental Payable	227,288			17,882	245,170
Accrued Interest Payable			2,389		2,389
Retainage Payable			253,468	9,203	262,671
Deferred Revenue	2,821,219	163,626		380,133	3,364,978
Notes Payable			2,000,000		2,000,000
Matured Compensated Absences Payable	23,084			300	23,384
Total Liabilities	<u>3,763,601</u>	<u>163,626</u>	<u>2,909,985</u>	<u>777,146</u>	<u>7,614,358</u>
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	116,520		1,442,364	243,475	1,802,359
Reserved for Property Taxes	47,018	3,056		6,416	56,490
Reserved for Textbooks and Instructional Materials	218,062				218,062
Unreserved, (Deficit) Reported in:					
General Fund	130,508				130,508
Special Revenue Funds				96,824	96,824
Debt Service Funds		35,126			35,126
Capital Projects Funds			(1,890,330)	24,336	(1,865,994)
Total Fund Balances (Deficit)	<u>512,108</u>	<u>38,182</u>	<u>(447,966)</u>	<u>371,051</u>	<u>473,375</u>
Total Liabilities and Fund Balances	<u>\$ 4,275,709</u>	<u>\$ 201,808</u>	<u>\$ 2,462,019</u>	<u>\$ 1,148,197</u>	<u>\$ 8,087,733</u>

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total Governmental Fund Balances \$473,375

Amounts reported for governmental activities in the statement of net assets are different because:

Some assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	259,540	
Construction in Progress	12,705,520	
Land Improvements	634,246	
Buildings and Improvements	1,519,195	
Furniture, Fixtures, and Equipment	1,493,821	
Vehicles	1,204,320	
Accumulated Depreciation	<u>(2,621,171)</u>	
		15,195,471

Long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Property Taxes	64,533	
Income Taxes	33,314	
Accounts Receivable	5,311	
Intergovernmental Grants	<u>22,002</u>	
Total		125,160

Some liabilities, including bonds payable and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Accrued Interest Payable	(38,649)	
Accretion of Capital Appreciation Bonds	(103,904)	
General Obligation Bonds	(9,999,992)	
Compensated Absences	(823,387)	
Intergovernmental Payable	<u>(91,708)</u>	
Total		<u>(11,057,640)</u>

Net Assets of Governmental Activities \$4,736,366

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	GENERAL	BOND RETIREMENT	CLASSROOM FACILITIES	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
REVENUES:					
Property and Other Local Taxes	\$2,624,167	\$87,932		\$338,976	\$3,051,075
Income Tax	656,468				656,468
Intergovernmental	5,326,323	10,027		475,919	5,812,269
Interest	18,451	2,547	\$62,084	5,839	88,921
Increase in Fair Value of Investments			45,172		45,172
Tuition and Fees	311,674			35,379	347,053
Extracurricular Activities	2,260			162,624	164,884
Gifts and Donations				24,413	24,413
Customer Sales and Services				265,882	265,882
Miscellaneous	47,718			82,537	130,255
Total Revenues	8,987,061	100,506	107,256	1,391,569	10,586,392
EXPENDITURES:					
Current:					
Instruction:					
Regular	4,363,678		165,093	113,644	4,642,415
Special	648,033			189,948	837,981
Vocational	126,781			1,546	128,327
Support Services:					
Pupils	306,256			164,228	470,484
Instructional Staff	212,159			184,084	396,243
Board of Education	82,022				82,022
Administration	895,869			9,275	905,144
Fiscal	267,718	1,577		38,883	308,178
Business	22,342				22,342
Operation and Maintenance of Plant	743,006		966	4,731	748,703
Pupil Transportation	637,761			27,263	665,024
Central	220,967			26,584	247,551
Operation of Non-Instructional Services	65			385,248	385,313
Extracurricular Activities	251,020			92,347	343,367
Capital Outlay	97,537		11,324,655	661,658	12,083,850
Debt Service:					
Interest		463,790	29,241		493,031
Total Expenditures	8,875,214	465,367	11,519,955	1,899,439	22,759,975
Excess of Revenues Over (Under) Expenditures	111,847	(364,861)	(11,412,699)	(507,870)	(12,173,583)
OTHER FINANCING SOURCES AND USES:					
Transfers In	1,606		28,441	259,857	289,904
Proceeds from Sale of Fixed Assets	6,102			19,784	25,886
Transfers Out	(259,857)	(28,441)		(1,606)	(289,904)
Total Other Financing Sources and Uses	(252,149)	(28,441)	28,441	278,035	25,886
Net Change in Fund Balances	(140,302)	(393,302)	(11,384,258)	(229,835)	(12,147,697)
Fund Balance at Beginning of Year	652,410	431,484	10,936,292	600,886	12,621,072
Fund Balance (Deficit) at End of Year	\$512,108	\$38,182	(\$447,966)	\$371,051	\$473,375

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds (\$12,147,697)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital Outlay	12,277,949	
Current Year Depreciation Expense	<u>(312,114)</u>	
Excess of Capital Outlay over Depreciation Expense		11,965,835

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each sale.

Loss on Disposal of Capital Assets		(36,895)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds, when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the statement of net activities is the result of the following:

Accretion of Capital Appreciation Bonds		(55,457)
-----------------------------------------	--	----------

Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

Property Taxes	34,727	
Income Taxes	(9,596)	
Accounts Receivable	954	
Intergovernmental Grants	<u>4,180</u>	
		30,265

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in Intergovernmental Payable	(12,076)	
Increase in Compensated Absences	<u>(44,195)</u>	
		<u>(56,271)</u>

Change in Net Assets of Governmental Activities (\$300,220)

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
Property Taxes	\$2,768,860	\$2,668,718	\$2,668,718	\$0
Income Taxes	628,000	626,161	626,161	0
Tuition and Fees	30,000	312,060	312,060	0
Interest	20,000	19,336	19,336	0
Intergovernmental	4,515,239	5,335,709	5,335,709	0
Extracurricular Activities		2,260	2,260	0
Miscellaneous	125,000	47,072	47,072	0
Total Revenues	8,087,099	9,011,316	9,011,316	0
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,190,220	3,880,133	3,880,133	0
Special	580,281	688,768	688,768	0
Vocational	223,054	127,166	127,166	0
Other	122,300	436,107	436,107	0
Support Services:				
Pupils	391,238	318,097	318,097	0
Instructional Staff	265,484	234,057	234,057	0
Board of Education	94,900	82,180	82,180	0
Administration	918,854	888,289	888,289	0
Fiscal	274,403	270,257	270,257	0
Business	37,840	23,783	23,783	0
Operation and Maintenance of Plant	847,152	776,988	776,988	0
Pupil Transportation	713,960	658,234	658,234	0
Central	259,545	244,932	244,932	0
Operation of Non-Instructional Services	600	165	165	0
Extracurricular Activities	264,325	244,125	244,125	0
Capital Outlay	123,517	99,122	99,122	0
Total Expenditures	9,307,673	8,972,403	8,972,403	0
Excess of Revenues Over (Under) Expenditures	(1,220,574)	38,913	38,913	0
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Capital Assets		5,680	5,680	0
Refund of Prior Year Expenditure		3,310	3,310	0
Refund of Prior Year Receipts	(1,500)	(1,431)	(1,431)	0
Transfers - In	221,000	1,606	1,606	0
Transfers - Out		(259,857)	(259,857)	0
Advances - In		9,301	9,301	0
Advances - Out	(7,500)	(143,359)	(143,359)	0
Total Other Financing Sources (Uses)	212,000	(384,750)	(384,750)	0
Net Change in Fund Balance	(1,008,574)	(345,837)	(345,837)	0
Fund Balance at Beginning of Year	887,692	887,692	887,692	0
Prior Year Encumbrances Appropriated	218,844	218,844	218,844	0
Fund Balance at End of Year	\$97,962	\$760,699	\$760,699	\$0

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$15,656	\$49,417
Investments in Segregated Accounts	30,500	
Total Current Assets	46,156	49,417
Total Assets	46,156	49,417
LIABILITIES:		
Current Liabilities:		
Undistributed Monies		805
Due to Students		48,612
Total Current Liabilities		49,417
Total Liabilities		49,417
NET ASSETS:		
Held in Trust for Scholarships	46,156	
Total Net Assets	\$46,156	

See Accompanying Notes to the Basic Financial Statements

MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
ADDITIONS:	
Gifts and Contributions	\$2,640
Interest	<u>620</u>
Total Additions	<u>3,260</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>1,500</u>
Total Deductions	<u>1,500</u>
Change in Net Assets	1,760
Net Assets Beginning of Year	<u>44,396</u>
<i>Net Assets End of Year</i>	<u><u>\$46,156</u></u>

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

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 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 53 non-certificated employees, 81 certificated full-time teaching personnel and 9 administrative employees who provide services to 1,307 students and other community members. The School District currently operates 5 instructional buildings.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District 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 School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 18 to the basic 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 Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
- Ohio School Plan

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District divides its funds into two categories: governmental and fiduciary.

1. Governmental Funds

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

The following are the School District's major governmental funds:

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.

Bond Retirement Fund – The bond retirement debt service fund accounts for property tax revenues and state exemption reimbursements collected for the payment of general obligation bonded debt.

Classroom Facilities Fund - The classroom facilities fund accounts for financial resources to be used for the new K-8 building.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Private Purpose Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's two trust funds are private purpose trusts which account for college scholarship programs for students. One of the School District's two agency funds accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor. The other agency fund accounts for employee monies used under a Section 125 plan.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

1. Government-wide Financial Statements

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

2. Fund Financial Statements

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

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or 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 fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from 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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a 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 nonexchange transactions must also be available before it can be recognized.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, income taxes, tuition, interest, grants, and student fees.

2. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Allocation of costs, such as depreciation and amortization are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, except the classroom facilities fund, are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately in an account at a financial institution for retainage and not held with the Treasurer are reported as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits.

Investments that are held separately by the private purpose trust funds are recorded as "Investments".

During fiscal year 2004, the School District invested in certificates of deposit and STAR Ohio (State Treasury Asset Reserve of Ohio).

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, 2004.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2004 amounted to \$18,451 which includes \$4,970 assigned from other School District funds.

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 presented on the financial statements as cash equivalents. Investments with a maturity of more than three months that were not purchased from the pool are reported as investments.

F. Interfund Balances

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

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used.

Inventory consists of expendable supplies held for consumption and purchased food held for resale.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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/expense is reported in the fiscal year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund represent amounts required by statute to be set aside by the School District for the purchase of textbooks. See Note 19 for additional information regarding set-asides.

J. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are capital assets that are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	7 years
Buildings and Improvements	20-50 years
Furniture, Fixtures, and Equipment	3-15 years
Vehicles	5-10 years

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

L. 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, 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 School District.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

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

O. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, property taxes, and textbook purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

P. Interfund Activity

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

Q. Estimates

The preparation of the 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Budgetary Process

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The Public School Preschool Special Revenue Fund and a portion of the Miscellaneous State Grants Fund's grant activity that is administered by a fiscal agent is not budgeted by the School District. The major documents prepared are the alternative tax document, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education 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.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. The financial statements are presented at less detail than the legal level of control. Prior to fiscal year-end, the School District approved amended appropriations which matched appropriations to expenditures plus encumbrances at fiscal year-end.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the reclassification of funds based on the guidance provided in GASB Statement No. 34 and by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This Statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of this new statement had no effect on the School District's financial statements for fiscal year 2003.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement had no effect on the presentation of budgetary statements by the School District for fiscal year 2004.

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

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>
Fund Balances, June 30, 2003	\$637,339	\$431,484	\$10,936,292
GASB Interpretation No. 6	15,071	0	0
GASB 34 Adjustment:			
Change in Fund Structure	<u>0</u>	<u>0</u>	<u>0</u>
Adjusted Fund Balance, June 30, 2003	<u>\$652,410</u>	<u>\$431,484</u>	<u>\$10,936,292</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

	Non-Major	Total
Fund Balances, June 30, 2003	\$576,990	\$12,582,105
GASB Interpretation No. 6	0	15,071
GASB 34 Adjustment:		
Change in Fund Structure	23,896	23,896
Adjusted Fund Balance, June 30, 2003	\$600,886	12,621,072
GASB 34 Adjustments:		
Capital Assets		3,266,531
Intergovernmental Payable		(79,632)
Accrued Interest Payable		(38,649)
Long-Term Liabilities		(10,827,631)
Long-Term (Deferred) Assets:		
Delinquent Property Taxes		29,806
Income Taxes Receivable		42,910
Accounts/Intergovernmental Receivable		22,179
Governmental Activities Net Assets, June 30, 2003		\$5,036,586

The School District's enterprise funds were reclassified as special revenue funds with the implementation of GASB Statement No. 34. Therefore, fund deficit of \$2,099 was restated by reducing the balance to zero.

4. ACCOUNTABILITY

At June 30, 2004, the Title II-A Special Revenue Fund and the Classroom Facilities Capital Projects Fund had deficit fund balances of \$13,208 and \$447,996, respectively. The Title II-A Special Revenue Fund deficit will be eliminated when the advances - in, shown as interfund payable, are paid off. The advances were made to cover expected cash flow problems. Future grant receipts will be used to pay the advances. The deficit in the Classroom Facilities Capital Project Fund was the result of the requirement to report bond anticipation notes in the fund which received the note proceeds. This deficit will be alleviated when the note is paid.

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances are operating transactions (budget) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	Net Change in Fund Balance
GAAP Basis	(\$140,302)
Net Adjustment for Revenue Accruals	27,143
Net Adjustment for Expenditure Accruals	77,338
Advances	(134,058)
Prepaid Items	(5,176)
Adjustment for Encumbrances	(170,782)
Budget Basis	(\$345,837)

6. 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 monies 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 monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including but not limited to passbook accounts.

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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 obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation 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 risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$3,208,726 and the bank balance was \$3,282,677. \$230,526 of the bank balance was covered by federal depository insurance and \$3,052,151 is considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Investments

The School District's investments are required to be categorized 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 for which securities are held by the counterparty's trust department or an agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, 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. The fair value invested in STAR Ohio at June 30, 2004 was \$921,553.

The classification of cash and cash equivalents and investments on the basic 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 cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$4,099,779	\$ 30,500
Investments:		
Certificates of Deposit	30,500	(30,500)
STAR Ohio	(921,553)	921,553
GASB Statement No. 3	\$3,208,726	\$921,553

7. 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 (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. PROPERTY TAXES (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance is recognized as revenue. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2004, was \$47,018 in the general fund, \$3,056 in the bond retirement fund, and \$6,416 in the permanent improvement capital projects fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second – Half Collections		2004 First – Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$124,400,290	88.19%	\$126,061,130	89.38%
Public Utility Real	31,210	0.02	32,340	0.02
Tangible Personal Property	16,624,870	11.79	14,956,110	10.60
Total	\$141,056,370	100.00%	\$141,049,580	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$44.08		\$45.38	

An increase of 1.30 mills is due to a new outside 10 mill limitation bonded debt levy. This is for school improvement bonds issued for \$9,999,992 on December 18, 2003.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. 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.

9. RECEIVABLES

Receivables at June 30, 2004, consisted of property and income taxes, accounts (tuition, and student fees), intergovernmental grants, and interfund. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Montgomery County ESC Reimbursement	\$3,474
State Athletic Reimbursement	549
Bureau of Workers' Compensation Refund	491
Food Service	6,431
Sale of Capital Assets	1,922
Student Intervention	4,692
IDEA-B	99,677
Title V	5,932
Drug Free Schools	7,143
Technology Title II-A	<u>44,362</u>
Total Intergovernmental Receivables	<u><u>\$174,673</u></u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

Governmental Activities	Related Balance 6/30/03	Additions	Deductions	Balance 6/30/04
Capital Assets, not Being Depreciated:				
Land	\$ 259,540			\$ 259,540
Construction in Progress	656,223	\$12,049,297		12,705,520
Total Capital Assets, not Being Depreciated	915,763	12,049,297		12,965,060
Capital Assets, Being Depreciated:				
Land Improvements	634,246			634,246
Buildings and Improvements	1,531,112		(\$11,917)	1,519,195
Furniture, Fixtures, and Equipment	1,394,243	228,652	(129,074)	1,493,821
Vehicles	1,211,820		(7,500)	1,204,320
Total Capital Assets, Being Depreciated	4,771,421	228,652	(148,491)	4,851,582
Less Accumulated Depreciation:				
Land Improvements	(252,226)	(26,412)		(278,638)
Buildings and Improvements	(697,970)	(32,935)	5,224	(725,681)
Furniture, Fixtures, and Equipment	(898,811)	(136,380)	103,184	(932,007)
Vehicles	(571,646)	(116,387)	3,188	(684,845)
Total Accumulated Depreciation	<u>(2,420,653)</u>	<u>(312,114)</u>	<u>111,596</u>	<u>(2,621,171)</u>
Capital Assets, Being Depreciated, Net	<u>2,350,768</u>	<u>(83,462)</u>	<u>(36,895)</u>	<u>2,230,411</u>
Governmental Activities Capital Assets, Net	\$3,266,531	\$11,965,835	(\$36,895)	\$15,195,471

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$76,643
Special	5,233
Vocational	4,440
Support Services:	
Pupils	9,187
Instructional Staff	14,662
Board of Education	206
Administration	12,853
Fiscal	3,177
Business	9,426
Operation and Maintenance of Plant	16,616
Pupil Transportation	112,763
Operation of Non-Instructional Services	6,153
Extracurricular Activities	40,755
Total Depreciation Expense	<u><u>\$312,114</u></u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance Company for builder's risk insurance. Also, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 18). The School District contracts for property, fleet, inland marine coverage, crime insurance, education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

Coverage includes:

Building and Contents-replacement cost (\$5,000 deductible)	\$26,715,800
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	250,000
Inland Marine Coverage (\$1000 deductible)	940,624
Crime Insurance	25,000
Builder's Risk	12,346,200
Education General Liability:	
Each Occurrence	1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability (\$2,500 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	2,000,000
Employment Practices (\$2,500 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000
Defense Costs Each Occurrence	1,000,000
Defense Costs Aggregate Limit	2,000,000
Excess Liability	1,000,000

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Health Systems, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 18). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was 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, 2004, 2003 and 2002 were \$122,882, \$117,948, and \$46,935, respectively; 46.59 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$555,487, \$559,532, and \$376,467 respectively; 82.50 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$1,591 made by the School District and \$4,716 made by the plan members.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

12. 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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, four members of the Board of Education have elected Social Security. The remaining Board member contributes to SERS. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$42,730 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 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 the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$15,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$90,699.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

13. 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, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. 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 fiscal year for all employees under contract for a full school year. Unused personal leave accumulates to a maximum of five days. Unused personal leave accumulation over five days may be converted to sick leave, cashed out, or donated to sick leave bank. 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 to a maximum of 281 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 (classified staff only --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. Medical/surgical benefits are provided by Anthem through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 18). The School District also provides dental insurance through CoreSource, and vision insurance through Vision Insurance Plan to all eligible employees.

C. Deferred Compensation Plan

School District employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan. The 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

15. FUND OBLIGATIONS

The School District's short-term debt activity, including amounts outstanding and interest rates follow:

	Balance at 6/30/03	Increases	Decreases	Balance at 6/30/04
School Improvement Bond Anticipation Note 1.43% - 2003	\$2,000,000		\$0	\$2,000,000
School Improvement Bond Anticipation Note 2.15% - 2004	0	2,000,000	0	2,000,000
Total	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>

On June 10, 2003, the School District issued a one-year \$2,000,000 School Improvement Bond Anticipation Note for the purpose of constructing a new school building including equipment. This note will be repaid with property tax revenue from the General Fund. This note is backed by the full faith and credit of the School District. The note is reported in the Classroom Facilities Fund, the fund which had received the proceeds. On June 10, 2004, the School District issued a one-year \$2,000,000 School Improvement Bond Anticipation Note to pay off the fiscal year 2003 note.

16. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Restated Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due Within One Year
Governmental Activities					
School Improvement Serial Bonds 2002 2.85-5.125%	\$5,405,000	\$0	\$0	\$5,405,000	\$295,000
School Improvement Term Bonds 2002 2.85-5.125%	4,390,000	0	0	4,390,000	0
School Improvement Original Issue of Capital Appreciation Bonds 2002 24.56%	204,992	0	0	204,992	0
Accretion on Capital Appreciation Bonds	48,447	55,457	0	103,904	0
Total Long-Term Debt	<u>10,048,439</u>	<u>55,457</u>	<u>0</u>	<u>10,103,896</u>	<u>295,000</u>
Compensated Absences	744,801	136,814	(58,228)	823,387	131,810
Total Governmental Activities Long-Term Liabilities	<u>\$10,793,240</u>	<u>\$192,271</u>	<u>(\$58,228)</u>	<u>\$10,927,283</u>	<u>\$426,810</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

School Improvement Bonds - On June 1, 2002, Miami East Local School District issued \$9,999,992 in school improvement general obligation bonds. The bonds were issued for a 28-year period with final maturity during fiscal year 2030. The bonds will be retired from the bond retirement fund with property tax revenues from a voted levy and transfers allocated from the general fund. The bond is 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.

The term bonds maturing on December 1, 2025, will be subject to mandatory sinking fund redemption on December 1 as follows:

<u>Year</u>	<u>Amount to be Redeemed</u>
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 School Improvement Bonds maturing on December 1, 2013, and thereafter are subject to optional redemption at the direction of the School District, in whole at any time or in part on any interest payment date, in any order as determined by the School District and by lot within a maturity, on or after June 1, 2012, 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 unmaturing 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 2003; at the compounding rates per year. The compounded interest on the capital appreciation bonds is reflected as an addition to the revenue bonds payable. The maturity amount of the capital appreciation bonds is \$1,750,000.

Compensated absences will be paid from the General Fund, the Food Service, and Title I Special Revenue funds.

The School District's overall legal debt margin was \$732,652 and the unvoted debt margin was \$141,050 at June 30, 2004.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$295,000	\$463,790
2006	305,000	455,383
2007	315,000	445,470
2008	325,000	434,603
2009	340,000	422,578
2010-2014	204,992	3,594,146
2015-2019	1,920,000	1,876,913
2020-2024	2,445,000	1,358,312
2025-2028	2,435,000	607,425
2029-2030	1,415,000	109,675
Totals	<u>\$9,999,992</u>	<u>\$9,768,295</u>

17. INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The general fund had an interfund receivable at June 30, 2004, of \$153,765, while all other nonmajor funds had interfund payables of \$153,765. The balance is due to reimbursable expenses resulting from the time lag between the dates that reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The general fund had transfers out to the nonmajor funds of \$259,857. Nonmajor funds had transfers out to the general fund in the amount of \$1,606. Transfers are used to move general fund revenues that are used to subsidize various programs in other funds.

18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. 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 to 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 Educational Service Center. Payments to MDECA are made from the general fund. The School District paid MDECA \$52,725 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

**18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Educational Purchasing Council -The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council 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, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits 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 during the one year period. Payments to SOEPC are made from the general fund. During fiscal year 2004, the School District paid \$12,234 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, 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. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education 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 of local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2004, the School District paid \$1,259 to SOITA for services provided during the fiscal year. 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.

B. Insurance Purchasing Pools

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, a representative 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 fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

**18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Ohio School Plan – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

19. 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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

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

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2003	\$177,542	\$0
Current Fiscal Year Set-aside Requirement	184,854	184,854
Current Fiscal Year Offsets	0	(345,105)
Qualifying Disbursements	(144,334)	0
Totals	<u>(\$218,062)</u>	<u>(\$160,251)</u>
Set-aside Balances Carried Forward to Future Fiscal Years	<u>\$218,062</u>	<u>\$0</u>
Set-aside Reserve Balance at June 30, 2004	<u>\$218,062</u>	<u>\$0</u>

Although the School District had offsets for capital acquisitions during the fiscal 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 fiscal years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

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, 2004.

21. SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had contractual purchase commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/04</u>
K-8 Building Project				
Area Energy & Electric, Inc.	Electrical Contractor	\$1,649,063	\$1,486,439	\$162,624
Buehrer Group	Architectural Services	719,928	647,935	71,993
CTL Engineer	Materials Testing	12,935	10,160	2,775
Dayton Fire Protection, Inc.	Fire Protection Contractor	181,244	164,685	16,559
Double Jay Construction	Playground Equipment	107,600	4,680	102,920
Esber Cash Register	Point of Sale System	8,265	0	8,265
Farnham Equipment Company	Library Furniture	63,800	0	63,800
Industrial Electronic Services	Scoreboard	11,544	7,696	3,848
Martin Public Seating Inc.	Loose Equipment	299,528	0	299,528
NEC Corporation	Telephone System	140,990	0	140,990
Peck, Shaffer & Williams LLP	Construction Attorney	28,000	25,173	2,827
Peterson Construction Co.	General Contractor	7,460,208	7,197,222	262,986
Regal Plumbing	HVAC Contractor	1,110,739	1,091,937	18,802
Rizzi Distributors	Food Service Equipment	246,700	241,294	5,406
Service Supply LTD, Inc.	Gym Mats	12,080	10,200	1,880
Slagle Mechanical Contractors	Plumbing Contractor	444,600	443,423	1,177
Tiffin Scenic Studios, Inc.	Stage Riggings	29,722	12,407	17,315
VSC, Inc.	Delivery System	282,617	32,101	250,516
	Sub-total	<u>12,809,563</u>	<u>11,375,352</u>	<u>1,434,211</u>
Water Tower				
Burgess & Niple	Water Improvement Plans	31,300	29,574	1,726
Gateway Tank, Inc.	Water Tower	405,530	345,700	59,830
	Water System			
H&K Construction Services	Improvements	82,270	78,061	4,209
Omega Riggers & Erectors	Electrical Package	28,757	15,841	12,916
	Sub-total	<u>547,857</u>	<u>469,176</u>	<u>78,681</u>
High School Science Room				
Active Electric, Inc.	Electrical Contractor	11,970	0	11,970
Buehrer Group	Architectural Services	9,998	7,832	2,166
Lochard, Inc.	Plumbing Contractor	41,025	0	41,025
Peterson Construction Co.	General Contractor	100,000	9,300	90,700
	Sub-total	<u>162,993</u>	<u>17,132</u>	<u>145,862</u>
Totals		<u>\$13,520,413</u>	<u>\$11,861,660</u>	<u>\$1,658,753</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

22. SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

23. SUBSEQUENT EVENTS

Ownership of Miami East Junior High, Miami East Intermediate, Miami East South Elementary, and Miami East North Elementary school buildings were transferred to the respective buyers during the period July 15 through September 1, 2004.

The sale amounts received for the Miami East Junior High, Miami East Intermediate, Miami East South Elementary, and Miami East North Elementary were \$105,000, \$100,000, \$1, and \$37,000 respectively.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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, Miami County, (the "District"), as of and for the year ended June 30, 2004, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the District in a separate letter dated November 19, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated November 19, 2004.

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

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

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

Betty Montgomery
Auditor of State

November 19, 2004

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. At May 31, 2004, the following funds had expenditures exceeding appropriations at the legal level (fund/function/object):

<u>Fund</u>	<u>Appropriations plus Prior Year Encumbrances</u>	<u>Expenditures plus Current Year Encumbrances</u>	<u>Variance</u>
General Fund/Vocational Instruction/Supplies and Materials	6,300	7,568	(1,268)
General Fund/Other Instruction/Purchased Services	126,180	409,251	(283,071)
General Fund/Support Services-Pupils/Capital Outlay-Replacement	4,500	6,636	(2,136)
General Fund/Support Services-Pupils/Other	77,039	514,045	(437,006)
General Fund/Support Services-Central/Supplies and Materials	24,893	33,491	(8,598)
Permanent Improvement/Building	5,000	9,772	(4,772)
Improvement/Capital Outlay Replacement	5,000	9,772	(4,772)
Permanent Improvement/Building	5,000	9,772	(4,772)
Improvement/Capital Outlay	-0-	2,474	(2,474)
Food Service/Operation & Maintenance of Plant/Purchased Services	6,300	7,072	(772)
Food Service/Food Service	6,300	7,072	(772)
Operations/Supplies and Materials	144,024	171,554	(27,530)
Public School Support/Support Services-Pupils/Purchased Services	34,400	57,805	(23,405)
District Managed Activities/Sports Oriented	34,400	57,805	(23,405)
Activities/Supplies and Materials	29,436	57,828	(28,392)
Title I/Special/Retirement & Insurance	8,594	25,433	(16,839)
Title I/Special/Personal Services	61,800	75,204	(13,404)

The District should place policies and procedures in effect to prevent expenditures from exceeding the amounts appropriated at the legal level of control.

FINDING NUMBER 2004-002

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

1. **“Then and Now” certificate** – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket certificate** – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 (an amount established by resolution or ordinance adopted by the legislative authority, effective September 26, 2003) against any specific line item account over a period not exceeding three months (three month limitation was eliminated effective September 26, 2003) or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The District did not properly certify the availability of funds prior to purchase commitment for 9% expenditures tested for 2004 and there was no evidence that the District followed the aforementioned exceptions.

The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend that the District’s Fiscal Officer certify that the funds are or will be available prior to the obligation by the District. When prior certification is not possible, “then and now” certification should be used.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2003-001	ORC Sec. 5705.41 (D) – certification of expenditures.	Not Corrected	Repeated as finding 2004-002
2003-002	ORC Sec. 5705.41 (B) – expenditures exceeded appropriations Trust Fund Activity	Not Corrected	Repeated as finding 2004-001



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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
DECEMBER 16, 2004**