

**MARIEMONT CITY  
SCHOOL DISTRICT, OHIO**

Basic Financial Statements

Year Ended June 30, 2005

With

Independent Auditors' Report





**Auditor of State  
Betty Montgomery**

Board of Education  
Mariemont City School District  
6743 Chestnut Street  
Mariemont, Ohio 45227

We have reviewed the *Independent Auditors' Report* of the Mariemont City School District, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

August 28, 2006

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# MARIEMONT CITY SCHOOL DISTRICT, OHIO

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 – 10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to Statement of Activities	16
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget-Actual (Non-GAAP Budgetary Basis) – General Fund	17
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust	19
Notes to Basic Financial Statements	20 – 36
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37 – 38

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Mariemont City School District, Ohio:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mariemont City School District, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 *Governmental 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 the School District as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note T, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees* for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2006 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
January 13, 2006

# MARIEMONT CITY SCHOOL DISTRICT, OHIO MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2005

(Unaudited)

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The discussion and analysis of Mariemont City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the 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 District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

## Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$3.42 million, which represents a 37% increase from 2004.
- General revenue accounted for \$19.7 million in revenue or 94.5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.2 million or 5.5% of total revenues of \$20.9 million.
- Total assets of governmental activities increased by \$1.2 million as taxes receivable increased by \$.04 million while cash and other receivables increased by \$.96 million.
- The District had \$17.5 million in expenses related to governmental activities; only \$1.2 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$19.7 million were adequate to provide for these programs.
- As the major fund, the General Fund had \$19.2 million in revenues and \$16.1 million in expenditures. The General Fund's balance increased from \$6.5 to \$9.5 million.

## Overview of the 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 the 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 *Statements of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund is the major fund of the District.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

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***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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answers 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 year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District has one distinct kind of activities. Governmental Activities – The District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

***Reporting the District's Most Significant Funds***

*Fund Financial Statements*

Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

***Governmental Funds*** Most of the 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 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 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.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

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**The District as a Whole**

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

Table 1 provides a summary of the District's net assets for 2005 compared to 2004:

Table 1  
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
<b>Assets</b>		
Current and other	\$19,363,611	\$20,284,675
Capital assets	<u>9,397,595</u>	<u>9,733,923</u>
<b>Total Assets</b>	28,761,206	30,018,598
<b>Liabilities</b>		
Long-term liabilities	8,285,675	8,103,279
Other Liabilities	<u>11,326,200</u>	<u>9,342,853</u>
<b>Total Liabilities</b>	19,611,875	17,446,132
<b>Net Assets</b>		
Invested in capital assets, net of debt	2,053,900	2,537,048
Restricted	1,349,974	1,339,219
Unrestricted	<u>5,745,457</u>	<u>8,696,199</u>
<b>Total Net Assets</b>	<u><u>\$9,149,331</u></u>	<u><u>\$12,572,466</u></u>

Total assets increased \$1.2 million. Equity in pooled cash and cash equivalents increased \$.75 million. Taxes receivable increased \$.04 million. Total liabilities decreased \$2.2 million, resulting in a net asset increase of \$3.4 million.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

Table 2 shows the change in net assets from fiscal year 2004 to 2005

Table 2  
Changes in Net Assets

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>
Revenues		
Program Revenues:		
Charges for services & sales	\$711,130	\$614,517
Operating grants	336,185	540,824
Capital grants	2,543	2,591
General Revenues:		
Property taxes	11,065,307	14,863,640
Grants and entitlements	4,844,651	4,658,658
Earnings on investments	86,588	125,492
Other revenues	<u>99,679</u>	<u>108,201</u>
Total Revenues	17,146,083	20,913,923
Program expenses:		
Instruction	9,079,120	9,522,590
Support services:		
Pupil and instructional staff	2,203,800	2,294,868
Administration	1,726,435	1,810,353
Operations & maintenance	1,981,891	1,823,271
Pupil transportation	500,733	523,492
Central	97,633	53,760
Non-instructional services	386,562	631,743
Extracurricular activities	523,459	544,749
Interest and fiscal charges	<u>389,927</u>	<u>285,962</u>
Total Expenses	<u>16,889,560</u>	<u>17,490,788</u>
Increase in Net Assets	<u><u>\$256,523</u></u>	<u><u>\$3,423,135</u></u>

**Governmental Activities**

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised ninety-three percent (93%) of the District's revenues for governmental activities.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

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The District depends greatly on property tax as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up seventy-one percent (71%) of revenue for governmental activities for the District in fiscal year 2005.

Instruction comprises fifty-two percent (54%) of governmental program expenses. Support services expenses were thirty-six percent (37%) of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, 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.

Table 3  
Changes in Net Assets

	Total Cost of Services		Net Cost of Services	
	2004	2005	2004	2005
Instruction	9,079,120	9,522,590	\$8,781,439	\$9,095,962
Support services:				
Pupil and instructional staff	2,203,800	2,294,868	2,007,351	1,975,638
Administration	1,726,435	1,810,353	1,720,190	1,810,353
Operations & maintenance	1,981,891	1,823,271	1,928,747	1,791,427
Pupil transportation	500,733	523,492	498,190	520,901
Central	97,633	53,760	96,133	53,760
Non-instructional services	386,562	631,743	52,178	412,942
Extracurricular activities	523,459	544,749	365,547	385,911
Interest and fiscal charges	389,927	285,962	389,927	285,962
Total Expenses	<u>\$16,889,560</u>	<u>\$17,490,788</u>	<u>\$15,839,702</u>	<u>\$16,332,856</u>

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

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**The District's Funds**

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20.9 million and expenditures of \$18.2 million. The net change in fund balance for the year was \$2.8 million.

**General Fund Budgeting Highlights**

The 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 fiscal 2005, the District amended its general fund budget twice, however neither was significant. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$17.0 million, slightly above original budget estimates of \$16.9 million. Of this \$.1 million difference, most was due to conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$.37 million above the original budget amount.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2005, the District had \$9.7 million invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2005 balances compared to fiscal 2004:

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Land	\$919,079	\$927,079
Construction in progress	6,975,171	214,503
Buildings & improvements	478,654	7,849,403
Furniture & equipment	890,909	636,783
Vehicles	<u>133,782</u>	<u>106,155</u>
Total Net Assets	<u>\$9,397,595</u>	<u>\$9,733,923</u>

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

The increase in capital assets is due to \$778,381 in acquisitions, offset by the recognition of \$442,053 in depreciation expense. This District continues its ongoing commitment to maintaining and improving its capital assets. For additional information on capital assets see Note G of the Notes to Basic Financial Statements.

**Debt**

At June 30, 2005, the District had \$7,803,644 in bonds outstanding, \$400,000 due within one year. Table 5 summarizes notes outstanding.

Table 5  
Outstanding Debt, at June 30

	Governmental Activities	
	2004	2005
General Obligation Bonds:		
Permanent Improvement	<u>\$7,315,722</u>	<u>\$7,803,644</u>
Total General Obligation Notes	<u><u>\$7,315,977</u></u>	<u><u>\$7,803,644</u></u>

In 2000, the District passed a 2.23 mill bond levy, providing \$8.016 million for a building and other various capital improvements

At June 30, 2005, the District's overall legal debt margin was \$25,945,907 with an unvoted debt margin of \$288,289.

For additional information on long-term debt see Notes I and J of the Notes to Basic Financial Statements.

**For the Future**

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate".

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)**  
**For the Fiscal Year Ended June 30, 2005**  
(Unaudited)

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**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Natalie Lucas, Treasurer at Mariemont City School District, 6743 Chestnut Street, Mariemont, OH 45227 or e-mail her at [NLucas@MariemontSchools.org](mailto:NLucas@MariemontSchools.org).

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Equity in pooled cash and investments	\$7,320,827
Receivables:	
Taxes	12,817,984
Accounts	30,545
Materials and supplies inventory	5,650
Deferred charges	109,669
Nondepreciable capital assets	1,141,582
Depreciable capital assets, net	<u>8,592,341</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$30,018,598</u></u></b>
<b>LIABILITIES:</b>	
Accounts payable	\$282,087
Accrued wages and benefits	1,483,605
Deferred revenue	7,132,409
Intergovernmental payable	396,678
Accrued interest payable	48,074
Long-term liabilities	
Due within one year	427,686
Due within more than one year	<u>7,675,593</u>
<b>TOTAL LIABILITIES</b>	<b><u>17,446,132</u></b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	2,537,048
Restricted for:	
Budget stabilization	140,000
Special Revenue	81,743
Debt Service	695,941
Capital Projects	421,535
Unrestricted	<u>8,696,199</u>
<b>TOTAL NET ASSETS</b>	<b><u><u>\$12,572,466</u></u></b>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Revenue and Changes</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>and Contributions</u>	<u>in Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental activities:					
Instruction:					
Regular	\$8,169,971	\$202,178	\$55,782	\$0	(\$7,912,011)
Special	1,275,887	56,469	99,489	0	(1,119,929)
Adult	9,279	12,710	0	0	3,431
Other	67,453	0	0	0	(67,453)
Support services:					
Pupil	1,072,402	0	288,065	0	(784,337)
Instructional staff	1,222,466	0	31,165	0	(1,191,301)
General administration	6,295	0	0	0	(6,295)
School administration	1,360,139	0	0	0	(1,360,139)
Fiscal	432,323	0	0	0	(432,323)
Business	11,596	0	0	0	(11,596)
Operations & maintenance	1,823,271	21,445	10,399	0	(1,791,427)
Pupil transportation	523,492	0	0	2,591	(520,901)
Central	53,760	0	0	0	(53,760)
Non-instructional services	631,743	162,877	55,924	0	(412,942)
Extracurricular activities	544,749	158,838	0	0	(385,911)
Debt service:					
Interest and fiscal charges	285,962	0	0	0	(285,962)
<b>Total governmental activities</b>	<b>\$17,490,788</b>	<b>\$614,517</b>	<b>\$540,824</b>	<b>\$2,591</b>	<b>(\$16,332,856)</b>

General revenues:	
Property taxes levied for:	
General purposes	14,130,232
Debt Service	733,408
Grants and Entitlements not Restricted to Specific Programs	4,658,658
Earnings on Investments	125,492
Other revenues	108,201
<b>Total general revenues</b>	<b>19,755,991</b>
Change in net assets	3,423,135
Net assets beginning of year	9,149,331
Net assets end of year	<b>\$12,572,466</b>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>			
Equity in pooled cash and investments	\$6,215,715	\$965,112	\$7,180,827
Receivables:			
Taxes	12,230,267	587,717	12,817,984
Accounts	29,041	1,504	30,545
Inventory	0	5,650	5,650
Restricted cash and investments	140,000	0	140,000
<b>TOTAL ASSETS</b>	<b><u>\$18,615,023</u></b>	<b><u>\$1,559,983</u></b>	<b><u>\$20,175,006</u></b>
<b>LIABILITIES AND FUND BALANCE:</b>			
<b>Liabilities:</b>			
Accounts payable	\$32,971	\$249,116	\$282,087
Accrued wages and benefits	1,483,605	0	1,483,605
Deferred revenue	7,179,967	328,717	7,508,684
Intergovernmental payable	395,268	1,410	396,678
Compensated absences payable	20,396	0	20,396
<b>Total liabilities</b>	<b><u>9,112,207</u></b>	<b><u>579,243</u></b>	<b><u>9,691,450</u></b>
<b>Fund Balances</b>			
Reserved-			
Reserved for property tax advances	5,051,000	259,000	5,310,000
Reserved for inventory	0	5,650	5,650
Reserved for budget stabilization	140,000	0	140,000
Unreserved, Undesignated, Reported in:			
General Fund	4,311,816	0	4,311,816
Special Revenue Funds	0	76,769	76,769
Debt Service Fund	0	432,830	432,830
Capital Projects Funds	0	206,491	206,491
<b>Total fund balances</b>	<b><u>9,502,816</u></b>	<b><u>980,740</u></b>	<b><u>10,483,556</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$18,615,023</u></b>	<b><u>\$1,559,983</u></b>	<b><u>\$20,175,006</u></b>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

Total Governmental Fund Balance \$10,483,556

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land and improvements	927,079	
Construction in progress	214,503	
Buildings and improvements	13,147,637	
Furniture and equipment	4,669,136	
Vehicles	597,413	
Accumulated depreciation	<u>(9,821,845)</u>	
Total Capital Assets		9,733,923

Other long-term assets that are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes - delinquent receivables	<u>376,275</u>	
Total		376,275

In the statement of net assets, interest is accrued, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. (48,074)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	7,170,391	
Less issuance costs	(109,669)	
Capital lease payable	26,484	
Compensated absences	<u>886,008</u>	
Total		<u>(7,973,214)</u>

Net Assets of Governmental Activities \$12,572,466

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$14,123,856	\$714,778	\$14,838,634
Tuition and fees	258,081	12,710	270,791
Charges for services	0	167,146	167,146
Earnings on investments	126,763	15,101	141,864
Extracurricular activities	0	162,877	162,877
Other local revenues	82,058	3,498	85,556
Intergovernmental	4,595,733	619,840	5,215,573
Total revenues	<u>19,186,491</u>	<u>1,695,950</u>	<u>20,882,441</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,237,062	56,048	8,293,110
Special	1,147,478	98,679	1,246,157
Adult	0	9,279	9,279
Other	67,453	0	67,453
Support services:			
Pupil	815,410	288,065	1,103,475
Instructional staff	1,100,052	58,891	1,158,943
General administration	11,458	0	11,458
School administration	1,333,330	44	1,333,374
Fiscal	424,535	7,761	432,296
Business	11,452	0	11,452
Operations & maintenance	1,914,641	18,450	1,933,091
Pupil transportation	487,610	0	487,610
Central	53,754	0	53,754
Non-instructional services	0	213,311	213,311
Extracurricular activities	403,759	169,054	572,813
Capital Outlay	98,502	527,506	626,008
Debt service:			
Refunding bond issuance costs	0	109,669	109,669
Principal retirement	27,536	255,000	282,536
Interest and fiscal charges	1,766	267,824	269,590
Total expenditures	<u>16,135,798</u>	<u>2,079,581</u>	<u>18,215,379</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,050,693</u>	<u>(383,631)</u>	<u>2,667,062</u>
Other financing sources (uses):			
Inception of capital lease	28,880	0	28,880
Refunding bonds issued	0	5,124,989	5,124,989
Premium on issuance of refunding bonds	0	564,065	564,065
Payment to refunded bond escrow agent	0	(5,579,385)	(5,579,385)
Transfers in	0	66,057	66,057
Transfers out	(66,057)	0	(66,057)
Total other financing sources (uses)	<u>(37,177)</u>	<u>175,726</u>	<u>138,549</u>
Net change in fund balances	3,013,516	(207,905)	2,805,611
Fund balances, July 1 (restated)	6,489,300	1,188,645	7,677,945
Fund balance, June 30	<u>\$9,502,816</u>	<u>\$980,740</u>	<u>\$10,483,556</u>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net Change in fund Balance - Total Governmental Funds \$2,805,611

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. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital asset additions, net	778,381	
Depreciation expense	(442,053)	
Total Capital Assets	336,328	336,328

Other long-term assets that are not available to pay for current period expenditures and therefore are deferred in the funds. 24,407

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond principal	255,000	
Lease principal	27,536	
Total	282,536	282,536

In the statement of activities, interest is accrued, whereas in the governmental funds, and interest expenditure is reported when due. (16,372)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	19,505	
Total	19,505	19,505

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets:

Proceeds of refunding bonds	(5,124,989)	
Premiums on issuance of bonds	(564,065)	
Capital lease financing	(28,880)	
Issuance costs	109,669	
Payments to escrow agents	5,579,385	
	(28,880)	(28,880)

Change in net assets of governmental activities \$3,423,135

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
BUDGET-ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Taxes	\$ 11,675,024	11,934,506	11,934,506	-
Tuition and fees	110,000	107,750	107,750	-
Earnings on investments	110,000	107,375	107,375	-
Intergovernmental	4,846,597	4,595,733	4,595,733	-
Other local revenues	180,000	232,824	232,824	-
<b>Total revenues</b>	<u>16,921,621</u>	<u>16,978,188</u>	<u>16,978,188</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	8,211,703	8,128,356	8,128,356	-
Special education	1,185,507	1,124,165	1,124,165	-
Other instruction	78,000	67,453	67,453	-
Support services:				
Pupil	933,756	814,748	814,748	-
Instructional staff	1,102,507	1,103,547	1,103,547	-
General administration	10,270	11,375	11,375	-
School administration	1,302,040	1,333,182	1,333,182	-
Fiscal	428,090	429,824	429,824	-
Business	15,500	11,455	11,455	-
Operation and maintenance	1,907,571	1,937,929	1,937,929	-
Pupil transportation	502,630	487,338	487,338	-
Central	89,371	58,160	58,160	-
Extracurricular activities	399,670	408,892	408,892	-
Capital outlay	264,269	183,368	183,368	-
<b>Total expenditures</b>	<u>16,430,884</u>	<u>16,099,792</u>	<u>16,099,792</u>	<u>-</u>
Excess of revenues over expenditures	490,737	878,396	878,396	-
<b>Other financing sources (uses):</b>				
Transfers out	(53,100)	(66,057)	(66,057)	-
Other financing sources	-	279	279	-
<b>Total other financing sources (uses):</b>	<u>(53,100)</u>	<u>(65,778)</u>	<u>(65,778)</u>	<u>-</u>
Net change in fund balance	437,637	812,618	812,618	-
Fund balance, beginning of year	5,424,404	5,424,404	5,424,404	
Prior year encumbrances appropriated	93,834	93,834	93,834	
Fund balance, end of year	\$ <u>5,955,875</u>	<u>6,330,856</u>	<u>6,330,856</u>	

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005**

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
ASSETS:		
Equity in pooled cash and investments	<u>\$86,227</u>	<u>\$50,496</u>
LIABILITIES:		
Due to others		<u>\$50,496</u>
NET ASSETS:		
Held in trust for Scholarships	<u>86,227</u>	
TOTAL NET ASSETS	<u>\$86,227</u>	

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Private Purpose Trust
	<u>Scholarship</u>
ADDITIONS:	
Interest	<u>\$1,138</u>
DEDUCTIONS:	
Award	<u>650</u>
Change in net assets	488
Net assets beginning of year	<u>85,739</u>
Net assets end of year	<u><u>\$86,227</u></u>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

NOTE A--DESCRIPTION OF THE DISTRICT

The District was chartered by the Ohio State Legislature. In 1853 state laws were enacted to create local Boards of Education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 68 non-certificated personnel and 142 certificated full time teaching and administrative personnel to provide services to students and other community members. The District is the 16th largest in Hamilton County (among 22 Districts) in terms of enrollment. It currently operates 3 elementary schools, 1 junior high school (grades 7-8), and 1 high school (grades 9-12).

THE REPORTING ENTITY

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, preschool and student related activities of the District.

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

The District is associated with two organizations that are defined as jointly governed organizations. These organizations are H/CCA and Great Oaks Institute of Technology and Career Development and are presented in Note Q to the Basic Purpose Financial Statements.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 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 District's accounting policies are described below.

BASIS OF PRESENTATION

*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 statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental

fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. 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 District.

*Fund Financial Statements* Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

## FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

*Governmental Funds* Governmental funds focus 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 is the School District's major governmental fund:

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

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

*Fiduciary Funds* report on net assets and changes in net assets. The District's fiduciary funds consist of a private-purpose trust fund and agency funds. The District's private-purpose trust fund accounts for scholarship programs for students from Fairfax Elementary. These assets are not available for the District's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District accounts for student activities in its agency funds.

## BASIS OF ACCOUNTING

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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

*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 District, available means expected to be received within sixty days of fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

*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, 2005, but which were levied to finance fiscal year 2006 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.

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

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

## BUDGETARY DATA

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when encumbered, or paid in cash (budgetary), as opposed to when susceptible to accrual (GAAP).

The actual results of operations, compared to the budget, which includes amendments, for each fund type by expenditure function and revenue by source are presented in the *Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual (Non-GAAP Budgetary Basis)*. The reserve for encumbrances is carried forward as part of the budgetary authority for the next year and is included in the revised budget amounts shown in the budget to actual comparisons.

The District adopts an annual budget for all governmental fund types. The specific timetable is as follows:

Prior to January 15 of the preceding fiscal year, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the board-adopted budget is filed with the Hamilton County Budget Commission for tax rate determination.

Prior to April 1, the Board of Education accepts by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amount set forth in the final Amended Certificate.

By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2005 and none were significant. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

The original appropriation measure was amended during the year as follows:

Fund Type

Governmental:  
General

\$ (318,135)

ENCUMBRANCES

Encumbrance accounting is utilized by District Funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level. For governmental fund types encumbrances outstanding at fiscal year end appear as a reserve of the fund balance on a GAAP basis and for all budgeted funds as the equivalent of expenditures/expenses on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note O provides a reconciliation of the budgetary basis and GAAP basis of accounting.

## CASH AND INVESTMENTS

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. During fiscal year 2005 \$126,763 of interest revenue was credited to the general fund and \$15,101 was credited to the other governmental funds.

Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. (If a quoted market price is not available, the methods and significant assumptions used to estimate the fair value of investments must be disclosed.) Non-participating investment contracts such as repurchase agreements and non-negotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio), during fiscal year 2005. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

## RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve as required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2004	\$ 0	\$ 0	\$ 140,000
Current Year Set-aside Requirement	237,473	237,473	0
Additional Qualifying Disbursements	<u>(487,896)</u>	<u>(875,693)</u>	<u>140,000</u>
Total	<u>\$ (250,423)</u>	<u>\$(638,220)</u>	<u>\$ 140,000</u>
Set-aside Cash Balance as of June 30, 2005	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 140,000</u>

## INVENTORY (MATERIALS AND SUPPLIES)

Inventory is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory consists of donated food, purchased food, and school supplies held for resale and are expensed when used.

## CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements but are not reported in the governmental fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen hundred 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.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements. 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:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	10-40 years
Furniture and Equipment	5-15 years
Vehicles	10 years

#### COMPENSATED ABSENCES

GASB Statement No. 16 specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payment.

The District's policies regarding compensated absences are determined by state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>VACATION</u>	<u>Certified</u>	<u>Administrators and Exempt</u>	<u>Non-Certificated</u>
How earned	Not Eligible	25 days	10-20 days for each service year depending on length of service.
Maximum Accumulation	Not Applicable	25 days	25 days
Vested	Not Applicable	25 days	25 days
Termination Entitlement	Not Applicable	Paid upon Termination	Paid upon Termination
 <u>SICK LEAVE</u>			
How earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	Unlimited	Unlimited	Unlimited
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

## 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 will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the fiscal year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

## 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

## ESTIMATES

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

## FUND EQUITY

Reserved fund balances indicate that portion of fund equity that is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, property taxes, inventory and budget stabilization. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purpose of those funds.

## NOTE C—FUND BALANCE / NET ASSET DEFICIT

The Title I Special Revenue Fund had a deficit fund balance of \$1,072 due to delays in cash being receipted to the District from the Ohio State Department of Education. The Extended Time Special Revenue Fund had a deficit fund balance of \$340 due to the decrease in enrollment.

## NOTE D--EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments".

State Statute requires the classification of monies held by the District into three categories:

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or 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 and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures"

### Deposits

#### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations

located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year-end, \$2,181,014 of the District's bank balance of \$2,281,014 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

### Investments

The City's investments at June 30, 2005 are as summarized as follows:

	<u>Fair Value</u>	<u>Average Maturity Years</u>
FHLB	\$ 4,075,299	0.82
Star Ohio	1,090,250	n/a
US Money Market Funds	<u>106,495</u>	n/a
	<u>\$ 5,272,044</u>	

### *Credit Risk*

It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The District's investments in Federal Home Loan Bank (FHLB) securities were rated AAA by Standard & Poor's and Aaa by Moody's. The District's investments in the U.S. Money Market Funds were rated AAA by Standard & Poor's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District is required to disclose the amount of investments with any one issuer that represent five percent or more of total investments. Investments issued by the U.S. government, investments, and investments in external investment pools are excluded from this requirement. The District's investments in FHLB securities represent 77% of total investments.

### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a failure of a counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment securities are registered in the name of the District.

### *Interest Rate Risk*

In accordance with the investment policy, the District manages its exposure to declines in fair value by limiting the maximum maturity of investments in its portfolio to five years.

NOTE E--PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed value, by property classification, upon which taxes collected in 2005 were based are as follows:

Tangible personal property	\$ 27,238,650
Real estate	<u>261,049,910</u>
Total assessed property value	<u>\$288,288,560</u>

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at twenty-five percent of true value (as defined). In 2005, each business was eligible to receive a \$10,000 exemption in assessed value, which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2005, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due June 20th.

The County Auditor remits portions of the taxes collected to all taxing Districts with periodic settlements of Real and Public Utility property taxes in February and August and Tangible Personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes that are measurable at June 30, 2005. Property tax advances available at year end and delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2005. All other tax receivables are recorded with an offset credit to deferred revenue, because although measurable, they are intended to finance the next fiscal year's operations.

NOTE F--RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts receivable, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose of the nonpayment of taxes, the stable condition of State Programs, and the current year guarantee of Federal Funds.

NOTE G—CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$919,079	\$8,000	\$0	\$927,079
Construction in progress	6,975,171	214,503	6,975,171	214,503
Capital Assets being depreciated:				
Building and improvements	5,761,378	7,386,259	0	13,147,637
Furniture and equipment	4,555,926	136,941	23,731	4,669,136
Vehicles	589,564	7,849	0	597,413
Total historical cost	18,801,118	7,753,552	6,998,902	19,555,768
Less accumulated depreciation:				
Building and improvements	5,282,724	15,510	0	5,298,234
Furniture and equipment	3,665,017	391,067	23,731	4,032,353
Vehicles	455,782	35,476	0	491,258
Total accumulated depreciation	9,403,523	442,053	23,731	9,821,845
Governmental Activities Capital Assets, net	<u>\$9,397,595</u>	<u>\$176,351</u>	<u>\$0</u>	<u>\$9,733,923</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$161,372
Special	5,909
Support services:	
Pupil	248
Instructional staff	87,323
School administration	21,966
Business	144
Operations & maintenance	119,340
Pupil transportation	35,559
Non-instructional services	8,022
Extracurricular activities	2,170
Total Depreciation Expense	<u>\$442,053</u>

NOTE H--CAPITALIZED LEASES - LESSEE

In prior years, the District has entered into capitalized leases for the acquisition of phone and office and energy conservation equipment. During fiscal year 2005, the District added \$28,880 of capital leases for the acquisition of office equipment. The terms of each agreement provide options to purchase the equipment. The cost of equipment under capital lease at June 30, 2005 is \$64,458. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the governmental funds.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

June 2006	\$8,605
June 2007	7,031
June 2008	6,943
June 2009	6,524
June 2010	403
Total Payments	<u>\$29,506</u>
Less: Amounts representing interest	<u>3,022</u>
Present Value of Minimum Lease Payments	<u><u>\$26,484</u></u>

NOTE I-- LONG-TERM LIABILITIES

In 2005, the District issued \$5,124,989 in general obligation refunding bonds to provide resources that were placed in an irrevocable trust for the purpose of providing resources for all future debt service payments of \$4,382,067 of general obligations bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,197,318. The amount is being netted against the new debt and amortized over the remaining life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by approximately \$436,000 and resulted in an economic gain of approximately \$193,000.

In 2001, the District issued \$8,015,722 of general obligation bonds (which were partially refunded in 2005 as discussed above). The purpose of the bonds was to provide general, ongoing permanent improvements consisting of building renovations, improvements and repair. The bond issue is a general obligation of the school district for which the full faith and credit of the school district is pledged for repayment. The following is a description of the District's long term bonds outstanding as of June 30, 2005:

<u>Purpose</u>	<u>Balance July 1, 2004</u>	<u>Addition 2005</u>	<u>Retirement 2005</u>	<u>Balance June 30, 2005</u>
Bonds:				
Permanent Improvement	\$7,315,722	\$0	\$4,637,067	\$2,678,655
Interest Rate – 6.34%				
Issue Date – 8/01/01				
Maturity Date – 12/01/26				
Permanent Improvement	\$0	\$5,124,989	\$0	\$5,124,989
Interest Rate – 5.69%				
Issue Date – 4/01/05				
Maturity Date – 12/01/25				

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

Year Ending June 30,	Principal	Interest	Total
2006	\$400,000	\$285,842	\$685,842
2007	345,000	270,264	615,264
2008	360,000	255,109	615,109
2009	375,000	238,801	613,801
2010	395,000	221,184	616,184
2011-15	1,628,655	1,470,365	3,099,020
2016-20	1,089,989	1,996,111	3,086,100
2021-25	2,615,000	435,120	3,050,120
2026	595,000	13,536	608,536
Total	<u>\$7,803,644</u>	<u>\$5,186,332</u>	<u>\$12,989,986</u>

NOTE J--CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2005, the following changes occurred in long-term liabilities:

	June 30, 2004	Additions	Deductions	June 30, 2005	Amounts Due in One Year
Governmental Activities					
Bonds Payable	\$7,315,722	\$5,124,989	\$4,637,067	\$7,803,644	\$400,000
Less deferred amounts:					
For issuance premiums	-	564,065	-	564,065	-
On refunding	-	(1,197,318)	-	(1,197,318)	-
Compensated Absences	941,980	0	35,576	906,404	20,396
Capital Leases	27,973	28,880	30,369	26,484	7,290
Total Governmental Activities					
Long-Term Liabilities	<u>\$8,285,675</u>	<u>\$5,153,869</u>	<u>\$4,703,012</u>	<u>\$8,103,279</u>	<u>\$427,686</u>

NOTE K--LEGAL DEBT MARGIN

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$25,945,970 and an unvoted debt margin of \$288,289.

## NOTE M-EMPLOYEE RETIREMENT SYSTEMS

### STATE TEACHERS RETIREMENT SYSTEM

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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 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% 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 survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 13% percent of annual covered salary was the portion used to fund pension obligations. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,136,359 \$1,050,197, and \$1,034,547 respectively; 95 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. With \$53,680 representing the unpaid contribution for fiscal year 2005, it is recorded as a liability within the respective funds.

### SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2005, 10.57 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$544,134 and \$524,244 and \$476,500, respectively. The District has contributed 62 percent for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003.

#### NOTE N—POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs and 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.

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled approximately \$49,407, during the 2005 fiscal year. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, results in a total health care contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net expenses for health care at June 30, 2005 were \$178.2 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits was \$267.5 million. For the District, the amount to fund health care benefits, including surcharge, equaled approximately \$227,000 during the 2005 fiscal year. SERS has approximately 58,000 participants currently receiving health care benefits.

#### NOTE O--BUDGETARY BASIS OF ACCOUNTING

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

A reconciliation of the nature and amounts of the adjustments necessary to convert the GAAP financial statements to the budgetary basis follows:

	Net Change in Fund Balance General Fund
	General <u>Fund</u>
GAAP Basis	\$ 3,013,516
Revenue Accruals	(2,208,303)
Expenditure Accruals	60,876
Other Sources and Uses	(28,601)
Encumbrances	<u>(24,870)</u>
Budgetary Basis	<u>\$ 812,618</u>

#### NOTE P--CONTINGENT LIABILITIES

##### GRANTS

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2005.

##### LITIGATION

Currently, no litigation is pending against the District.

#### NOTE Q—JOINTLY GOVERNED ORGANIZATIONS

##### HAMILTON/CLERMONT COOPERATIVE ASSOCIATION

The Hamilton/Clermont Cooperative Association (H/CCA) is a governmental jointly governed organization among two county consortium of school districts. 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 districts. Each of the governments of these schools supports H/CCA based upon a per pupil charge dependent upon the software package utilized. H/CCA is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

##### GREAT OAKS INSTITUTE OF TECHNOLOGY AND CAREER DEVELOPMENT

The Great Oaks Institute of Technology and Career Development (Great Oaks), a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the District. The District has no ongoing financial interest in nor responsibility for Great Oaks. To obtain financial information, write to Great Oaks, at 3254 East Kemper Road, Cincinnati, Ohio 45241.

NOTE R--RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property damage. Payments have not exceeded this coverage in any of the past three years. There has been no significant decline in coverage from the prior year.

NOTE S – INTERFUND TRANSACTIONS

During the year ended June 30, 2005, the General Fund made transfers of \$66,057 to non-major governmental funds. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE T - CHANGE IN ACCOUNTING PRINCIPLES/PRIOR PERIOD ADJUSTMENT

The School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk and outlines disclosure requirements.

The School District has implemented GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*. The Technical Bulletin clarifies the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other postemployment benefit plans. The implementation of GASB Technical Bulletin 2004-2 had the following effect on fund balances previously reported:

		General <u>Fund</u>	Nonmajor <u>Governmental</u>
Fund balance at June 30, 2004 as previously reported	\$	6,611,142	1,195,046
Implementation of GASB Technical Bulletin 2004-2		<u>(121,842)</u>	<u>(6,401)</u>
Fund balance at June 30, 2004, restated	\$	<u><u>6,489,300</u></u>	<u><u>1,188,645</u></u>



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

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

To the Board of Education  
Mariemont City School District, Ohio:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mariemont City School District, Ohio (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 13, 2006 wherein we noted that the School District implemented Governmental Accounting Standards Board Statement No. 40 as well as Governmental Accounting Standards Board Technical Bulletin No. 2004-2. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 operations that we consider to be material weaknesses.

## Compliance And Other Matters

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

We noted certain matters that we reported to management of the School District in a separate letter dated January 13, 2006.

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

*Clark, Schaefer, Haskett & Co.*

Cincinnati, Ohio  
January 13, 2006



**Auditor of State  
Betty Montgomery**

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**MARIEMONT CITY SCHOOL DISTRICT**

**HAMILTON 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  
SEPTEMBER 7, 2006**