



**Auditor of State
Betty Montgomery**

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Edgewood City School District
Butler County
3500 Busenbark Road
Trenton, Ohio 45067

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Edgewood City School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Edgewood City School District, Butler County, Ohio, as of June 30, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3A, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, but is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

April 20, 2004

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the Edgewood City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. 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 financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$3,257,763 which represents a 107.52% increase from 2002.
- General revenues accounted for \$26,107,529 in revenue or 91.41% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,452,965 or 8.59% of total revenues of \$28,560,494.
- The District had \$25,302,731 in expenses related to governmental activities; only \$2,452,965 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$26,107,529 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$23,114,808 in revenues and other financing sources and \$21,745,657 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance increased \$1,365,225 from \$(952,065) to \$413,160.
- The District's other major governmental fund the debt service fund had \$2,927,919 in revenues and other financing sources and \$2,125,908 in expenditures. During fiscal 2003, the debt service fund's fund balance increased \$802,011 from \$1,739,755 to \$2,541,766.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand 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 *Statement 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. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Reporting the 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 question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current 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* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. 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. The District's major governmental funds are the general fund and debt service fund.

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 financial statements provide a detailed *short-term* view of the District's general governmental 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 basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 22 and 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities 2003
<u>Assets</u>	
Current and other assets	\$ 14,994,318
Capital assets	28,003,449
Total assets	42,997,767
<u>Liabilities</u>	
Current liabilities	11,569,872
Long-term liabilities	25,140,306
Total liabilities	36,710,178
<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,958,691
Restricted	2,910,736
Unrestricted	(581,838)
Total net assets	\$ 6,287,589

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$6,287,589.

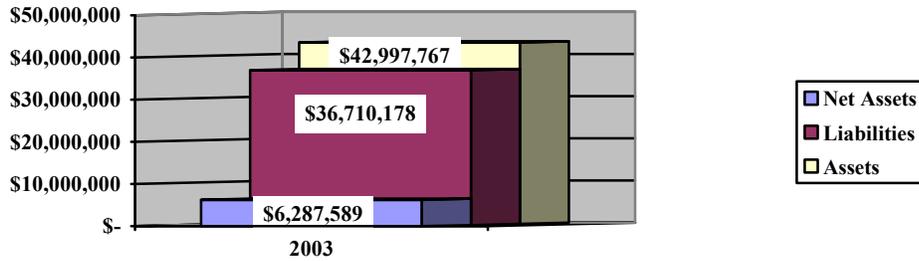
At year-end, capital assets represented 65.13% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$3,958,691. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,910,736, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of (\$581,838) may be used to meet the District's ongoing obligations to the students and creditors.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,244,811
Operating grants and contributions	1,147,094
Capital grants and contributions	61,060
General revenues:	
Property taxes	12,472,973
Grants and entitlements	12,493,952
Investment earnings	68,713
Payment in lieu of taxes	893,051
Other	<u>178,840</u>
Total revenues	<u>28,560,494</u>

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 11,061,211
Special	2,754,960
Support services:	
Pupil	1,271,586
Instructional staff	1,953,564
Board of education	100,459
Administration	1,797,326
Fiscal	451,525
Business	139,142
Operations and maintenance	1,992,555
Pupil transportation	966,225
Central	166,526
Operations of non-instructional services	28,842
Food service operations	1,077,162
Extracurricular activities	463,187
Interest and fiscal charges	<u>1,078,461</u>
Total expenses	<u>25,302,731</u>
Increase in net assets	<u>\$ 3,257,763</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$3,257,763. Total governmental expenses of \$25,302,731 were offset by program revenues of \$2,452,965 and general revenues of \$26,107,529. Program revenues supported 9.69% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 87.41% of total governmental revenue. Real estate property is reappraised every six years.

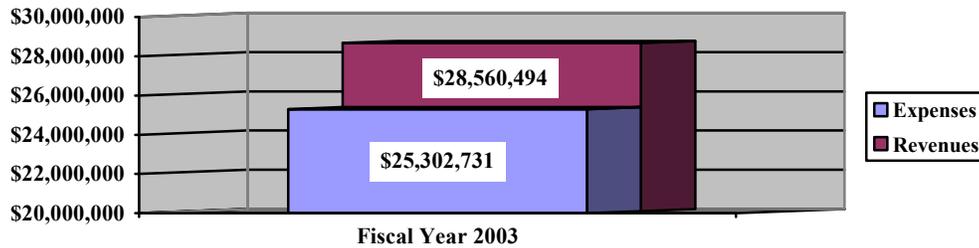
The District's financial condition has improved moderately in recent years, primarily due to increased financial support from the state. Future increases in state funding are projected to be more inflationary rather than the significant increases seen over the past several years, the District is projecting a decrease in state funding for future years.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental 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 grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses		
Instruction:		
Regular	\$ 11,061,211	\$ 10,731,922
Special	2,754,960	2,193,145
Support services:		
Pupil	1,271,586	1,241,499
Instructional staff	1,953,564	1,756,675
Board of education	100,459	100,459
Administration	1,797,326	1,679,170
Fiscal	451,525	451,525
Business	139,142	139,142
Operations and maintenance	1,992,555	1,975,539
Pupil transportation	966,225	957,661
Central	166,526	133,551
Operation of non-instructional services:		
Food service operations	1,077,162	15,703
Extracurricular activities	463,187	370,124
Interest and fiscal charges	<u>1,078,461</u>	<u>1,078,461</u>
Total	<u>\$ 25,302,731</u>	<u>\$ 22,849,766</u>

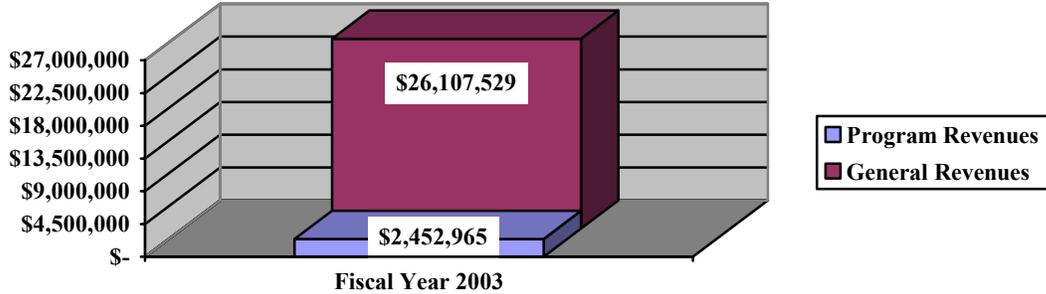
The dependence upon tax and other general revenues for governmental activities is apparent, 93.55% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.31%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2003.

Governmental Activities - General and Program Revenues

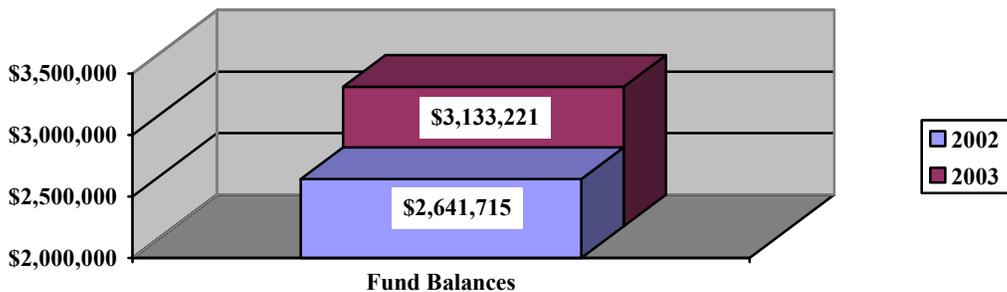


The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$3,133,221, which is higher than last year's total of \$2,641,715. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Restated Fund Balance June 30, 2002	Increase (Decrease)
General	\$ 413,160	\$ (952,065)	\$ 1,365,225
Debt service	2,541,766	1,739,755	802,011
Other Governmental	<u>178,295</u>	<u>1,854,025</u>	<u>(1,675,730)</u>
Total	<u>\$ 3,133,221</u>	<u>\$ 2,641,715</u>	<u>\$ 491,506</u>

Governmental Activities - Fund Balance



**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

General Fund

The District's general fund balance increased by \$1,365,225 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The increase in fund balance can be attributed to an increase in property tax revenue which increased \$3,622,958 and an increase in intergovernmental-state revenue of \$997,300. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2003 <u>Amount</u>	Restated 2002 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 9,804,965	\$ 6,182,007	58.60%
Tuition and fees	61,101	56,763	7.64%
Earnings on investments	62,025	91,089	(31.91)%
Intergovernmental	12,130,333	11,063,274	9.65%
Other revenues	<u>1,054,154</u>	<u>628,496</u>	67.73%
 Total	 <u>\$ 23,112,578</u>	 <u>\$ 18,021,629</u>	 28.25%
<u>Expenditures</u>			
Instruction	\$ 12,666,092	\$ 11,572,178	9.45%
Support services	8,544,231	7,580,774	12.71%
Operation of non-instructional services	24,038	11,431	110.29%
Extracurricular activities	418,281	390,328	7.16%
Facilities acquisition and construction	-	131,310	(100.00)%
Capital outlay	-	155,787	(100.00)%
Debt service	<u>55,399</u>	<u>5,996</u>	823.93%
 Total	 <u>\$ 21,708,041</u>	 <u>\$ 19,847,804</u>	 9.37%

Debt Service Fund

The District's debt service fund, fund balance increased by \$802,011 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The District was able to increase the debt service fund balance through a property tax revenue increase of \$1,181,178. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

	<u>2003</u> <u>Amount</u>	Restated 2002 <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$2,526,684	\$1,345,506	87.79%
Intergovernmental	<u>363,619</u>	<u>261,814</u>	38.88%
Total	<u>\$2,890,303</u>	<u>\$1,607,320</u>	79.82%
<u>Expenditures</u>			
Support services	\$ 22,894	\$ 28,037	(18.34)%
Principal retirement	1,025,879	935,880	9.62%
Interest and fiscal charges	<u>1,077,135</u>	<u>1,115,276</u>	(3.42)%
Total	<u>\$2,125,908</u>	<u>\$2,079,193</u>	2.25%

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 2003, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$22,650,381, which increased from the original budgeted revenues estimate of \$21,557,424. Actual revenues and other financing sources for fiscal 2003 was \$22,732,941. This represents a \$82,560 increase over final budgeted revenues. This increase is primarily due to conservative earnings estimates in the final budgeted amounts.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$23,277,718 which increased from the original budgeted appropriations estimate of \$21,390,986. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$22,119,941, which was \$1,157,777 less than the final budget appropriations.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

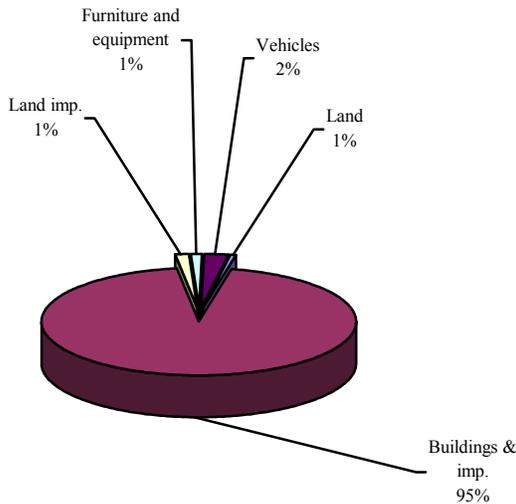
At the end of fiscal 2003, the District had \$28,003,449 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at June 30
(Net of Depreciation)**

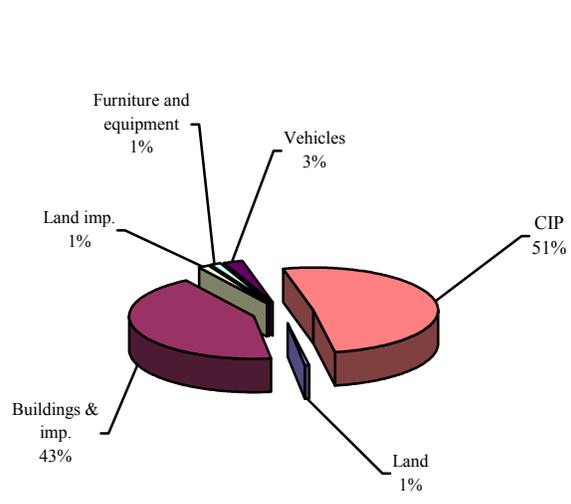
	Governmental Activities	
	2003	2002
Land	\$ 183,689	\$ 183,689
Land improvements	394,910	212,447
Building and improvements	26,441,107	10,697,346
Furniture and equipment	308,386	205,053
Vehicles	675,357	607,778
Construction in progress	-	14,637,665
Total	\$ 28,003,449	\$ 26,543,978

The District acquired \$1,602,519 in buildings and improvements during fiscal 2003. Total additions to capital assets for 2003 were \$2,091,790. The overall increase in capital assets of \$1,459,471 is primarily due to the construction in progress going on in the District in fiscal 2003.

**Capital Assets - Governmental Activities
2003**



**Capital Assets - Governmental Activities
2002**



**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Debt Administration

At June 30, 2003, the District had \$23,938,576 in general obligation bonds outstanding. Of this total, \$1,080,000 is due within one year and \$22,858,576 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2003</u>	Governmental Activities <u>2002</u>
General obligation bonds:		
Improvement	\$ 17,409,743	\$ 17,839,743
Refunding	<u>6,528,833</u>	<u>7,088,833</u>
Total	<u>\$ 23,938,576</u>	<u>\$ 24,928,576</u>

In 1999, the District issued general obligation bonds, providing for the improvement of the District's high school and elementary school. The general obligation bonds are scheduled to mature in fiscal year 2025 and bear an interest rate of 4.98%. Payment of principal and interest on the high school and elementary school remodeling bonds is being made from the debt service fund.

In 1999, the District issued general obligation bonds, providing for the refunding of previous bond issues of the District. The general obligation bonds are scheduled to mature in fiscal year 2025 and bear an interest rate of 4.98%. Payment of principal and interest on the refunding bonds is being made from the debt service fund.

During fiscal 2003, the District made the final payment on an unvoted Energy Conservation note in the amount of \$35,879. At June 30, 2003, the District's overall legal debt margin was \$10,655,160 with an unvoted debt margin of \$356,133 and an energy conservation debt margin of \$3,205,197.

Current Financial Related Activities

As the preceding information shows, the District relies heavily upon grants and entitlements, property taxes and state funding. An increase in property tax revenue is expected in fiscal year 2004 due to the increased tax valuation caused by the triennial valuation update. This additional tax revenue, along with the District's cash balance, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2004. However, the future financial stability of the District is not without challenges.

The first challenge is the passage of a new operating levy in 2004. The District had placed a levy for new operating income on the March 2, 2004 ballot. Unfortunately, the levy was defeated. The District has taken the necessary steps to place the levy back on the ballot in August. The District currently has a sufficient cash balance to meet operating expenses through fiscal year 2005. Unfortunately, projections for fiscal year 2006 show a negative year end cash balance. If a new operating tax levy is not approved in 2004, the District will have to make cuts in operating expenditures to make up this shortfall.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The next challenge facing the District is the rapid increase in enrollment over the past several years, especially if these increases continue. These increases are impacting the capacity of our current school buildings. If these increases continue, the District could be faced with asking the voters to approve a bond levy for the building of a new elementary school. With the addition of a new building comes an increase in operating expenditures.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court 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. On September 6, 2001, the Ohio Supreme Court issued its opinion regarding the state's school funding plan and granted a motion for reconsideration on November 2, 2001. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

The District has not anticipated a significant growth in state revenue. The concern is that, to meet the requirements of the court, the state may require redistribution of commercial and industrial property tax. With approximately eight percent of taxes paid for the District coming from business or industry, this could have a slight impact on the District's residential taxpayers.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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 Mr. Brian Rabe, Treasurer, Edgewood City School District, 3500 Busenbark Road, Trenton, Ohio, 45067-9798.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,740,867
Cash with fiscal agent.	152,472
Receivables:	
Taxes	10,969,979
Accounts	356
Intergovernmental	93,732
Accrued interest	3,560
Prepayments	7,536
Materials and supplies inventory.	25,816
Capital assets:	
Land	183,689
Depreciable capital assets, net	27,819,760
Capital assets, net.	28,003,449
 Total assets	 42,997,767
Liabilities:	
Accounts payable	45,416
Retainage payable.	152,472
Accrued wages and benefits	2,004,349
Pension obligation payable.	519,942
Intergovernmental payable	54,892
Deferred revenue	8,707,362
Accrued interest payable	85,439
Long-term liabilities:	
Due within one year.	1,226,262
Due within more than one year	23,914,044
Total liabilities	36,710,178
Net Assets:	
Invested in capital assets, net of related debt.	3,958,691
Restricted for:	
Capital projects	36,979
Debt service.	2,629,666
Other purposes	244,091
Unrestricted (deficit).	(581,838)
Total net assets.	\$ 6,287,589

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Instruction:					
Regular	\$ 11,061,211	\$ 276,696	\$ 51,393	\$ 1,200	\$ (10,731,922)
Special	2,754,960	1,050	560,765	-	(2,193,145)
Support services:					
Pupil	1,271,586	19,484	10,603	-	(1,241,499)
Instructional staff	1,953,564	15,535	133,527	47,827	(1,756,675)
Board of education	100,459	-	-	-	(100,459)
Administration	1,797,326	75,093	31,030	12,033	(1,679,170)
Fiscal	451,525	-	-	-	(451,525)
Business	139,142	-	-	-	(139,142)
Operations and maintenance	1,992,555	13,542	3,474	-	(1,975,539)
Pupil transportation	966,225	8,564	-	-	(957,661)
Central	166,526	-	32,975	-	(133,551)
Operation of non-instructional services	28,842	-	3,652	-	(25,190)
Food service operations	1,077,162	741,784	319,675	-	(15,703)
Extracurricular activities	463,187	93,063	-	-	(370,124)
Interest and fiscal charges	1,078,461	-	-	-	(1,078,461)
Total governmental activities	\$ 25,302,731	\$ 1,244,811	\$ 1,147,094	\$ 61,060	(22,849,766)

General Revenues:

Property taxes levied for:	
General purposes	9,914,055
Debt service	2,558,918
Grants and entitlements not restricted to specific programs	12,493,952
Investment earnings	68,713
Payment in lieu of taxes	893,051
Miscellaneous	178,840
Total general revenues	26,107,529
Change in net assets	3,257,763
Net assets at beginning of year	3,029,826
Net assets at end of year	\$ 6,287,589

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,503,336	\$ 1,784,382	\$ 329,926	\$ 3,617,644
Cash with fiscal agent	-	-	152,472	152,472
Receivables:				
Taxes	9,122,653	1,847,326	-	10,969,979
Accounts	181	-	175	356
Intergovernmental	-	-	93,732	93,732
Accrued interest	3,488	-	72	3,560
Interfund loans	83,699	-	2,054	85,753
Prepayments	7,536	-	-	7,536
Materials and supplies inventory	-	-	25,816	25,816
Restricted assets:				
Equity in pooled cash and cash equivalents	123,223	-	-	123,223
Total assets	\$ 10,844,116	\$ 3,631,708	\$ 604,247	\$ 15,080,071
Liabilities:				
Accounts payable	\$ 38,400	\$ -	\$ 7,016	\$ 45,416
Retainage payable	-	-	152,472	152,472
Accrued wages and benefits	1,900,814	-	103,535	2,004,349
Compensated absences payable	63,641	-	-	63,641
Pension obligation payable	310,322	-	12,254	322,576
Intergovernmental payable	52,227	-	2,665	54,892
Interfund loan payable	2,054	-	83,699	85,753
Deferred revenue	8,063,498	1,089,942	64,311	9,217,751
Total liabilities	10,430,956	1,089,942	425,952	11,946,850
Fund Balances:				
Reserved for encumbrances	89,308	-	196,220	285,528
Reserved for BWC refunds	123,223	-	-	123,223
Reserved for materials and supplies inventory	-	-	25,816	25,816
Reserved for property tax unavailable for appropriation	1,059,155	757,384	-	1,816,539
Reserved for debt service	-	1,784,382	-	1,784,382
Reserved for prepayments	7,536	-	-	7,536
Unreserved, undesignated, reported in:				
General fund	(866,062)	-	-	(866,062)
Special revenue funds	-	-	83,070	83,070
Capital projects funds	-	-	(126,811)	(126,811)
Total fund balances	413,160	2,541,766	178,295	3,133,221
Total liabilities and fund balances	\$ 10,844,116	\$ 3,631,708	\$ 604,247	\$ 15,080,071

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$ 3,133,221
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		28,003,449
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 446,078	
Intergovernmental revenue	<u>64,311</u>	
Total		510,389
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	17,409,743	
Refunding bonds	6,528,833	
Capital lease obligation	106,182	
Compensated absences	1,031,907	
Pension obligation payable	197,366	
Accrued interest payable	<u>85,439</u>	
Total		<u>(25,359,470)</u>
Net assets of governmental activities		<u><u>\$ 6,287,589</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 9,804,965	\$ 2,526,684	\$ -	\$ 12,331,649
Tuition	61,101	-	159,704	220,805
Earnings on investments	62,025	-	6,688	68,713
Charges for services	-	-	741,784	741,784
Extracurricular	-	-	184,596	184,596
Other local revenues	161,103	-	140,825	301,928
Payment in lieu of taxes	893,051	-	-	893,051
Intergovernmental - State	12,060,574	363,619	155,119	12,579,312
Intergovernmental - Federal	69,759	-	856,164	925,923
Total revenue	<u>23,112,578</u>	<u>2,890,303</u>	<u>2,244,880</u>	<u>28,247,761</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,512,269	-	272,705	10,784,974
Special	2,153,823	-	518,943	2,672,766
Support Services:				
Pupil	1,210,027	-	38,924	1,248,951
Instructional staff	1,782,917	-	178,947	1,961,864
Board of education	100,459	-	-	100,459
Administration	1,656,743	-	145,907	1,802,650
Fiscal	431,544	22,894	-	454,438
Business	139,158	-	-	139,158
Operations and maintenance	2,045,073	-	30,059	2,075,132
Pupil transportation	1,022,805	-	-	1,022,805
Central	155,505	-	11,517	167,022
Operation of non-instructional services	24,038	-	5,032	29,070
Food service operations	-	-	1,035,176	1,035,176
Extracurricular activities	418,281	-	83,859	502,140
Facilities acquisition and construction	-	-	1,604,128	1,604,128
Debt service:				
Principal retirement	49,605	1,025,879	-	1,075,484
Interest and fiscal charges	5,794	1,077,135	-	1,082,929
Total expenditures	<u>21,708,041</u>	<u>2,125,908</u>	<u>3,925,197</u>	<u>27,759,146</u>
Excess of revenues under expenditures	<u>1,404,537</u>	<u>764,395</u>	<u>(1,680,317)</u>	<u>488,615</u>
Other financing sources (uses):				
Transfers in	-	37,616	32,363	69,979
Transfers out	(37,616)	-	(32,363)	(69,979)
Proceeds from sale of capital assets	2,230	-	-	2,230
Total other financing sources (uses)	<u>(35,386)</u>	<u>37,616</u>	<u>-</u>	<u>2,230</u>
Net change in fund balances	1,369,151	802,011	(1,680,317)	490,845
Fund balances (deficit) at beginning of year (as restated, see note 3)	(952,065)	1,739,755	1,854,025	2,641,715
Increase (decrease) in reserve for inventory	(3,926)	-	4,587	661
Fund balances at end of year	<u>\$ 413,160</u>	<u>\$ 2,541,766</u>	<u>\$ 178,295</u>	<u>\$ 3,133,221</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	490,845
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 capital outlays exceeds depreciation expense in the current period.		1,459,471
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		661
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		202,710
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,075,484
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		4,468
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		24,124
Change in net assets of governmental activities	\$	3,257,763

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 9,187,646	\$ 9,054,381	\$ 9,054,382	\$ 1
Tuition	16,377	18,000	61,101	43,101
Earnings on investments	90,981	100,000	58,537	(41,463)
Other local revenues	738,319	811,509	967,011	155,502
Intergovernmental - State	11,385,810	12,514,491	12,060,574	(453,917)
Intergovernmental - Federal	22,745	25,000	69,759	44,759
Total revenue	<u>21,441,878</u>	<u>22,523,381</u>	<u>22,271,364</u>	<u>(252,017)</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,469,209	12,480,819	10,476,138	2,004,681
Special	1,836,555	1,998,543	2,103,120	(104,577)
Vocational	113	123	-	123
Support Services:				
Pupil	1,115,834	1,214,253	1,235,640	(21,387)
Instructional staff	1,493,151	1,624,850	1,792,315	(167,465)
Board of education	81,982	89,213	100,975	(11,762)
Administration	1,481,783	1,612,479	1,652,230	(39,751)
Fiscal	395,755	430,661	431,613	(952)
Business	136,979	149,061	138,693	10,368
Operations and maintenance	1,867,977	2,032,737	2,096,025	(63,288)
Pupil transportation	854,432	929,795	1,022,487	(92,692)
Central	96,597	105,117	155,035	(49,918)
Operation of non-instructional services	11,225	12,215	22,700	(10,485)
Extracurricular activities	349,711	380,556	427,290	(46,734)
Facilities acquisition and construction	4,301	4,680	-	4,680
Debt service:				
Principal retirement	32,972	35,880	35,880	-
Interest and fiscal charges	1,595	1,736	1,736	-
Total expenditures	<u>21,230,171</u>	<u>23,102,718</u>	<u>21,691,877</u>	<u>1,410,841</u>
Excess of revenues over (under) expenditures	<u>211,707</u>	<u>(579,337)</u>	<u>579,487</u>	<u>1,158,824</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	-	87,095	87,095
Refund of prior year receipt	-	-	(735)	(735)
Transfers (out)	(45,947)	(50,000)	-	50,000
Advances in	115,546	127,000	372,252	245,252
Advances (out)	(114,868)	(125,000)	(427,329)	(302,329)
Proceeds from sale of capital assets	-	-	2,230	2,230
Total other financing sources (uses)	<u>(45,269)</u>	<u>(48,000)</u>	<u>33,513</u>	<u>81,513</u>
Net change in fund balance	166,438	(627,337)	613,000	1,240,337
Fund balance at beginning of year	829,171	829,171	829,171	-
Prior year encumbrances appropriated	77,718	77,718	77,718	-
Fund balance at end of year	<u>\$ 1,073,327</u>	<u>\$ 279,552</u>	<u>\$ 1,519,889</u>	<u>\$ 1,240,337</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents.	\$ 10,847	\$ 37,227
Total assets	10,847	37,227
Liabilities:		
Accounts payable	-	153
Due to students	-	37,074
Total liabilities	-	\$ 37,227
Net Assets:		
Held in trust for scholarships	10,847	
Total net assets	\$ 10,847	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and contributions	\$ 6,825
Total additions	6,825
Deductions:	
Scholarships awarded	4,825
Change in net assets	2,000
Net assets at beginning of year	8,847
Net assets at end of year	\$ 10,847

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Edgewood City School District (the "District") was formed on February 14, 1968 with the consolidation of Trenton City School District and Shiloh Local School District. 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 authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities, staffed by 133 non-certified personnel and 224 certified full time teaching and administrative personnel, who provide services to approximately 3,364 students and other community members.

The District ranks as the 133rd largest by enrollment among the 740 public and community school districts in the state. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' 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 organizations resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization, or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association (SWOCA)

SWOCA is a jointly governed organization among a three-county consortium of Ohio school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of the member districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge, dependent upon the software package utilized.

The governing board of SWOCA is comprised of the superintendent of each of the member districts, plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained from K. Michael Crumley, who serves as Director, at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Butler Technology & Career Development Schools

The Technology & Career Development Schools is a vocational school district, and is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The Technology & Career Development School accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 11.B. for additional information.

B. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

C. 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.

Nonexchange 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 (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements 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 nonexchange transactions must also be available before it can be recognized.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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, 2003, but which were levied to finance fiscal year 2004 operation, 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 Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

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.

Debt Service Fund - This fund is used to account for the accumulation of resources and payment of general obligation bond and note principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

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

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

E. Budgets

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Butler County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the special cost center by fund, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. 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 Cash Equivalents" on the basic financial statements.

During fiscal 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

Investment earnings are assigned to the general fund and other funds authorized by Ohio statute or other legal provision. The following fund was credited with more interest revenue than would have been received based upon its share of the District's investments:

	<u>Interest Actually Received</u>	<u>Interest Bond upon Share of Investments</u>	<u>Interest Assigned from Other Funds</u>
General	<u>\$ 62,025</u>	<u>\$ 13,827</u>	<u>\$ 48,198</u>

**EDGEWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District utilizes a financial institution to escrow amounts of retainage for ongoing construction projects. The total amount in escrow was \$152,472 at June 30, 2003. This amount is presented on the combined balance sheet as "Cash with Escrow Agent" since it is not required to be deposited into the District treasury.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method on the statement of activities and the purchase method on the governmental fund statements.

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

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand five hundred dollars. The 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.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**EDGEWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service or any age with 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, property taxes unavailable for appropriation and Bureau of Workers' Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for Bureau of Workers' Compensation (BWC) refunds. See Note 16 for details.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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

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

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise funds and expendable trust funds have been reclassified and are now part of the general fund and other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassification and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
June 30, 2002	\$ (940,746)	\$ 1,739,755	\$ 1,674,311	\$ 2,473,320
Fund reclassifications	-	-	179,714	179,714
Implementation of GASB Interpretation No. 6	<u>(11,319)</u>	<u>-</u>	<u>-</u>	<u>(11,319)</u>
Restated fund balance, June 30, 2002	<u>\$ (952,065)</u>	<u>\$ 1,739,755</u>	<u>\$ 1,854,025</u>	<u>\$ 2,641,715</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2002	\$ 2,641,715
GASB 34 adjustments:	
Long-term (deferred) assets	307,679
Capital assets	26,543,978
Accrued interest payable	(89,907)
Long-term liabilities	(26,191,306)
Pension obligation	<u>(182,333)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 3,029,826</u>

**EDGEWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 95,727
Title I	12,279
Title VI	1,944
EHA Preschool Grant	12

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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;

**EDGEWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash with Fiscal Agent: At fiscal year-end, \$152,472 was on deposit in the District's escrow account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as "Equity in Pooled Cash and Cash Equivalents"; rather this amount is reported as "Cash with Fiscal Agent".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments and Reserve Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$838,831 and the bank balance was \$1,015,536. Both of these amounts include \$152,472 in cash with escrow agents and are exclusive of payroll clearance accounts. Of the bank balance:

1. \$200,000 was covered by federal depository insurance or surety company bonds deposited with the District; and

**EDGEWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. \$815,536 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form. The District had \$3,102,582 invested in STAR Ohio at June 30, 2003.

A reconciliation between the classifications of cash and investments including cash with fiscal agent on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
Basic Financial Statements	\$ 3,941,413	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	<u>(3,102,582)</u>	<u>3,102,582</u>
GASB Statement No. 3	<u>\$ 838,831</u>	<u>\$ 3,102,582</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 83,699
Nonmajor Governmental Funds	Nonmajor Governmental Funds	2,054

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Debt Service Fund from:	
General Fund	\$ 37,616
Transfers to Nonmajor Governmental Funds from:	
Nonmajor Governmental Funds	<u>32,363</u>
Total	<u>\$ 69,979</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) are for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003 on the assessed value listed as of the prior January 1, 2003, the lien date. Assessed values are established by state law at thirty-five percent of appraised market value.

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

2003 tangible personal property taxes are levied after April 1, 2002, on the values as of December 31, 2003. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

The full tax rate for District operations for the year ended June 30, 2003, was \$32.92 per \$1,000.00 of assessed value for operations, and \$6.00 per \$1,000.00 of assessed valuation for debt service. The assessed values of real and tangible personal property for tax year 2003 are as follows:

	<u>2002 Second- Half Collections</u>		<u>2003 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property	\$ 226,444,080	72.09%	\$ 256,586,980	72.05%
Public utility property	53,490	0.02%	51,440	0.01%
Tangible personal property	<u>87,619,581</u>	<u>27.89%</u>	<u>99,494,583</u>	<u>27.94%</u>
Total assessed valuation	<u>\$ 314,117,151</u>	<u>100.00%</u>	<u>\$ 356,133,003</u>	<u>100.00%</u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2003 tangible personal property tax settlement was not received until July of 2003.

The Butler County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August. The amounts available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2003 was \$1,059,155 in the general fund and \$757,384 in the debt service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2002 was \$308,572 in the general fund and \$68,242 in the debt service fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, internal loans and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Property taxes	\$ 10,969,979
Accounts	356
Intergovernmental	93,732
Accrued interest	<u>3,560</u>
Total	<u>\$ 11,067,627</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

NOTE 8 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy and the addition of land values not previously reported. See Note 2.H. for details.

	<u>Balance</u> <u>6/30/02</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/02</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ -	\$ 183,689	\$ 183,689
Construction in progress	<u>14,637,665</u>	<u>-</u>	<u>14,637,665</u>
Total capital assets, not being depreciated	<u>14,637,665</u>	<u>183,689</u>	<u>14,821,354</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	413,034	(147,165)	265,869
Buildings and improvements	17,253,875	54,951	17,308,826
Furniture and equipment	3,029,941	(2,094,359)	935,582
Vehicles	<u>1,082,382</u>	<u>31</u>	<u>1,082,413</u>
Total capital assets, being depreciated	<u>21,779,232</u>	<u>(2,186,542)</u>	<u>19,592,690</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(7,870,066)</u>	<u>(7,870,066)</u>
Governmental activities capital assets, net	<u>\$ 36,416,897</u>	<u>\$ (9,872,919)</u>	<u>\$ 26,543,978</u>

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 183,689	\$ -	\$ -	\$ 183,689
Construction in progress	<u>14,637,665</u>	<u>-</u>	<u>(14,637,665)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>14,821,354</u>	<u>-</u>	<u>(14,637,665)</u>	<u>183,689</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	265,869	194,738	-	460,607
Buildings and improvements	17,308,826	16,240,184	-	33,549,010
Furniture and equipment	935,582	172,325	-	1,107,907
Vehicles	<u>1,082,413</u>	<u>122,208</u>	<u>-</u>	<u>1,204,621</u>
Total capital assets, being depreciated	<u>19,592,690</u>	<u>16,729,455</u>	<u>-</u>	<u>36,322,145</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(53,422)	(12,275)	-	(65,697)
Buildings and improvements	(6,611,480)	(496,423)	-	(7,107,903)
Furniture and equipment	(730,529)	(68,992)	-	(799,521)
Vehicles	<u>(474,635)</u>	<u>(54,629)</u>	<u>-</u>	<u>(529,264)</u>
Total accumulated depreciation	<u>(7,870,066)</u>	<u>(632,319)</u>	<u>-</u>	<u>(8,502,385)</u>
Governmental activities capital assets, net	<u>\$ 26,543,978</u>	<u>\$ 16,097,136</u>	<u>\$ (14,637,665)</u>	<u>\$ 28,003,449</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 320,636
Special	56,602

Support Services:

Pupil	21,032
Instructional Staff	45,313
Administration	21,038
Fiscal	1,349
Operations and Maintenance	29,427
Pupil Transportation	59,235
Extracurricular Activities	13,889
Food Service Operation	<u>63,798</u>

Total depreciation expense \$ 632,319

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into a capitalized lease for exercise equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital fixed assets consisting of exercise equipment have been capitalized in the amount of \$155,787. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2003 totaled \$49,605 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 55,399
2005	<u>55,400</u>
Total minimum lease payments	110,799
Less amount representing interest	<u>(4,617)</u>
Total	<u>\$ 106,182</u>

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

	Interest Rate	Balance Outstanding 06/30/02	Additions	Reductions	Balance Outstanding 06/30/03	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Improvement bonds	4.98%	\$ 17,839,743	\$ -	\$ (430,000)	\$ 17,409,743	\$ 525,000
Refunding bonds	4.98%	7,088,833	-	(560,000)	6,528,833	555,000
Total general obligation bonds payable		<u>\$ 24,928,576</u>	<u>\$ -</u>	<u>\$ (990,000)</u>	<u>\$ 23,938,576</u>	<u>\$ 1,080,000</u>
<u>Notes Payable:</u>						
Energy conservation notes	4.84%	<u>\$ 35,879</u>	<u>\$ -</u>	<u>\$ (35,879)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Other Long-Term Obligations:</u>						
Capital lease obligation		\$ 155,787	\$ -	\$ (49,605)	\$ 106,182	\$ 51,999
Compensated absences		<u>1,050,866</u>	<u>48,122</u>	<u>(3,440)</u>	<u>1,095,548</u>	<u>94,263</u>
Total other long-term obligations		<u>\$ 1,206,653</u>	<u>\$ 48,122</u>	<u>\$ (53,045)</u>	<u>\$ 1,201,730</u>	<u>\$ 146,262</u>
Total governmental activities		<u>\$ 26,171,108</u>	<u>\$ 48,122</u>	<u>\$ (1,078,924)</u>	<u>\$ 25,140,306</u>	<u>\$ 1,226,262</u>

Improvement Bonds: The District issued general obligation bonds on May 27, 1999, to make major improvements and additions to three of the District's facilities. These bonds will be retired from the debt service fund with revenue generated from a 6.25 mill bonded debt levy.

Refunding Bonds: The District issued general obligation bonds on May 27, 1999, to advance refund the callable portion of the Series 1991 School Improvement Bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the basic financial statements. These bonds will be retired from the debt service fund with revenue generated from a 6.25 mill bonded debt levy. The principal balance of the general obligation refunded bonds at June 30, 2003, was \$7,385,000.

Energy Conservation Notes: On August 28, 1997, the District borrowed \$215,277 in the form of a five-year 4.84% note to finance energy conservation projects. The loan will be paid off with the utility savings generated from the energy improvements in accordance with House Bill 264 and Ohio Revised Code § 3313.372. The final payment on the loan was made in fiscal 2003.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid. Compensated absences are presented net of actual increases and decreases.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2003, are as follows:

Year Ended	Refunding Bonds			Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 555,000	\$ 261,960	\$ 816,960	\$ 525,000	\$ 794,133	\$ 1,319,133
2005	580,000	239,760	819,760	575,000	773,133	1,348,133
2006	605,000	215,980	820,980	595,000	749,558	1,344,558
2007	625,000	190,570	815,570	620,000	724,568	1,344,568
2008	655,000	163,695	818,695	650,000	697,908	1,347,908
2009 - 2013	3,088,938	667,807	3,756,745	3,269,132	3,787,728	7,056,860
2014 - 2018	419,895	1,140,105	1,560,000	2,585,611	5,043,606	7,629,217
2019 - 2023	-	-	-	5,070,000	1,741,479	6,811,479
2024 - 2026	-	-	-	3,520,000	362,250	3,882,250
Total	<u>\$ 6,528,833</u>	<u>\$ 2,879,877</u>	<u>\$ 9,408,710</u>	<u>\$ 17,409,743</u>	<u>\$ 14,674,363</u>	<u>\$ 32,084,106</u>

C. 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, 2003 are a voted debt margin of \$10,655,160 (including available funds of \$2,541,766), an unvoted debt margin of \$356,133, and an unvoted energy conservation debt margin of \$3,205,197.

NOTE 11 - RISK MANAGEMENT

- A.** The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District purchased commercial coverage for property and general liability insurance, including boilers and machinery valued at \$71,195,904 with a \$1,000,000 single occurrence limit and a \$1,000 deductible.

Professional liability is protected by the Selective Insurance Company of South Carolina with a \$4,000,000 annual aggregate/\$2,000,000 single occurrence limit and a \$1,000 per claim deductible. Vehicles are covered by Selective Insurance Company of South Carolina and hold a \$500 deductible for comprehensive and a \$500 deductible for collision.

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

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

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

B. OSBA Group Workers' Compensation Rating Program

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$454,300, \$408,046, and \$372,805, respectively; 28.32% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$325,652, represents the unpaid contribution for fiscal year 2003.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,602,633, \$1,494,189, and \$1,395,619, respectively; 84.10% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$254,812, represents the unpaid contribution for fiscal year 2003.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, all members of the Board of Education have elected SERS.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$114,474 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$232,572 during the 2003 fiscal year.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 613,000
Net adjustment for revenue accruals	841,214
Net adjustment for expenditure accruals	(122,834)
Net adjustment for other sources/uses	(68,899)
Adjustment for encumbrances	<u>106,670</u>
GAAP basis	<u>\$ 1,369,151</u>

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District has lawsuits outstanding, but management does not believe that potential losses, if any, will be material to the financial statements.

C. State School Funding Decision

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

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Balance as of June 30, 2002	\$ (145,039)	\$ (17,595,870)	\$ 123,223
Current year set-aside requirement	449,472	449,472	-
Qualifying disbursements	<u>(578,915)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (274,482)</u>	<u>\$ (17,146,398)</u>	<u>\$ 123,223</u>
Balance carried forward to FY 2004	<u>\$ (274,482)</u>	<u>\$ (17,146,398)</u>	<u>\$ 123,223</u>

The District had offsets and qualifying disbursements during the year that reduced the instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 16 - STATUTORY RESERVES - (Continued)

The negative carry over for capital acquisition from the previous fiscal year is a result of debt proceeds for the construction and renovation of school buildings. The resulting negative balance may be carried forward to reduce the requirements for qualifying disbursements in future years.

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

Amount restricted for BWC refunds	<u>\$ 123,223</u>
Total restricted assets	<u><u>\$ 123,223</u></u>

NOTE 17 - OUTSTANDING CONTRACTUAL COMMITMENTS

At June 30, 2003, the District had the following outstanding contractual commitments:

<u>Vendor</u>	<u>Amount</u>
Nelson Stark Company	\$ 52,458
Century Construction, Inc.	34,442
McGraw/Kokosing Co.	1,800
Prism Electric Contractors, Inc.	40,458
Universal Contracting Corp.	29,210
Wire to Wire	4,193

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550		\$107,793		\$102,063
School Breakfast Program	05-PU 02/03	10.553	31,836		31,836	
National School Lunch Program	LL-P4 02/03	10.555	168,181		168,181	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>200,017</u>	<u>107,793</u>	<u>200,017</u>	<u>102,063</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SD-03-P	84.027	14,673		27	
	6B-SF-03-P		<u>305,742</u>		<u>302,250</u>	
Total Special Education Grants to the States			<u>320,415</u>		<u>302,277</u>	
Special Education - Preschool Grant	PG-S1-03-P	84.173	<u>2,838</u>		<u>2,838</u>	
Total Special Education Cluster			<u>323,253</u>		<u>305,115</u>	
Title I, Part A, CSEA	C1-S1-02	84.010	35,289		43,803	
	C1-S1-03		<u>158,816</u>		<u>173,447</u>	
Total Title I, Part A, CSEA			<u>194,105</u>		<u>217,250</u>	
Drug Free Schools Grant	DR-S1-02	84.186	(2,784)		558	
	DR-S1-03		<u>10,647</u>		<u>7,709</u>	
Total Drug Free Schools Grant			<u>7,863</u>		<u>8,267</u>	
Innovative Education Program Strategies	C2-S1-02	84.298	6,345		6,530	
	C2-S1-03		<u>15,319</u>		<u>13,930</u>	
Total Innovative Education Program Strategies			<u>21,664</u>		<u>20,460</u>	
Eisenhower Professional Development Grant	MS-S1-02	84.281	1,744		3,829	
Technology Literacy Challenge Fund Grant	TJ-S1-03	84.318	4,686		4,641	
Title VI-R Class Size Reduction	CR-S1-02	84.340	641		5,309	
Assistive Technology Infusion Project	AT-S1-02	84.352	(628)		5,050	
	AT-S2-02		1,345		1,282	
	AT-S2-03		<u>1,890</u>		<u>1,405</u>	
Total Assistive Technology Infusion Grant			<u>2,607</u>		<u>7,737</u>	
Improving Teacher Quality State Grant (Title II)	TR-S1-03	84.367	64,292		64,044	
Learn & Serve America	SV-S2-02	94.004	(332)		1,258	
Total Department of Education			<u>620,523</u>		<u>637,910</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Community Alternative Funding System (CAFS)	0900163	93.778	<u>69,759</u>		<u>69,759</u>	
Total U.S Department of Health and Human Services			<u>69,759</u>		<u>69,759</u>	
INSTITUTE OF MUSEUM AND LIBRARY SERVICES						
<i>Passed through the State Library of Ohio</i>						
Library Services and Technology Act	VI-2-02	45.310			7,061	
Total Institute of Museum and Library Services			<u>0</u>		<u>7,061</u>	
TOTAL FEDERAL ASSISTANCE			<u>\$890,299</u>	<u>\$107,793</u>	<u>\$914,747</u>	<u>\$102,063</u>

The accompanying notes to this schedule are an integral part of this schedule.

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C—MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-federal funds (matching funds) to support federally funded programs. The District has complied with the matching requirements. The expenditure of non federal matching funds in not included in the schedule.

NOTE D—TRANSFER OF DRUG FREE SCHOOL FUNDS

During the audit period the District and the Ohio Department of Education (ODE) transferred \$2,784 of DR-S1-02 funds to DR-S1-03 funds. The accompanying schedule has been modified to reflect the transfer.

NOTE E—REFUND OF ASSISTANT TECHNOLOGY INFUSION GRANT

During the audit period the District refunded \$628 of A2-S1-02 to ODE due to the expiration of the period of availability. The accompanying schedule has been modified to reflect the refund.

NOTE F—REFUND OF LEARN AND SERVE AMERICA GRANT

During the audit period the District refunded \$332 of SV-S2-02 to ODE due to the expiration of the period of availability. The accompanying schedule has been modified to reflect the refund.

NOTE G—TRANSFER OF TITLE II FUNDS

During the audit period the District transferred \$32,363 from the Title II-A fund to the Title I fund. The accompanying schedule has been modified to reflect the transfer.



Auditor of State Betty Montgomery

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

Edgewood City School District
Butler County
3500 Busenbark Road
Trenton, Ohio 45067

To the Board of Education:

We have audited the financial statements of Edgewood City School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 20, 2004, in which we noted that the District adopted Governmental Accounting Standards Board Statement No 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

Edgewood City School District
Butler County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 20, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Edgewood City School District
Butler County
3500 Busenbark Road
Trenton, Ohio 45067

To the Board of Education:

Compliance

We have audited the compliance of Edgewood City School District, Butler County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 20, 2004

**EDGEWOOD CITY SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: Food Distribution Program-10.550; School Breakfast Program-10.553; School Lunch Program-10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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EDGEWOOD CITY SCHOOL DISTRICT

BUTLER 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
MAY 6, 2004**