



**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund.....	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Notes to the Basic Financial Statements	20
Supplemental Information:	
Schedule of Federal Awards Expenditures	47
Notes to the Schedule of Federal Awards Expenditures.....	48
Independent Accountants' Report on Compliance and on Internal Control Required By Government Auditing Standards.....	49
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	51
Schedule of Findings.....	53
Schedule of Prior Audit Findings.....	55

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Preble Shawnee Local School District
Preble County
124 Bloomfield Street
Camden, Ohio 45311

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 Preble Shawnee Local School District, Preble 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 Preble Shawnee Local School District, Preble County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 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 March 9, 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 expenditures schedule is required by the *U.S. Office of Management & Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and 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, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 9, 2004

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

The discussion and analysis of Preble Shawnee Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

In total, net assets decreased \$844,500, which represents an 10 percent decrease from 2002.

General revenues accounted for \$11,701,347 in revenue or 87 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$1,766,139 or 13 percent of total revenues of \$13,467,486.

Total assets of governmental activities decreased by \$1,318,923 as cash and cash equivalents decreased by \$820,131, receivables decreased by \$297,901 and capital assets decreased by \$224,425.

The School District had \$14,311,986 in expenses; only \$1,766,139 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and entitlements) were \$11,701,347.

Among major funds, the General Fund had \$11,438,601 in revenues and \$12,039,494 in expenditures. The General Fund's balance decreased \$761,285 over 2002. The School District advanced \$387,561 from the General Fund to the Replacement Capital Projects Fund.

Using The Basic Financial Statements

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 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 School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility condition, required educational programs and other factors.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

Governmental Funds

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

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Table 1 Net Assets		
	2002	2003
Assets		
Current and Other Assets	\$7,767,177	\$6,672,679
Capital Assets	10,030,471	9,806,046
Total Assets	17,797,648	16,478,725
Liabilities		
Long-Term Liabilities	4,735,133	4,475,144
Other Liabilities	4,623,269	4,408,835
Total Liabilities	9,358,402	8,883,979
Net Assets		
Invested in Capital Assets, Net of Debt	5,735,471	5,776,046
Restricted	1,259,040	1,049,220
Unrestricted	1,444,735	769,480
Total Net Assets	\$8,439,246	\$7,594,746

Total assets of governmental activities decreased by \$1,318,923, as cash and cash equivalents decreased by \$820,131, receivables decreased by \$297,901, and capital assets decreased by \$224,425. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$675,255.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Table 2
Changes in Net Assets

	2003
Revenues	
Program Revenues:	
Charges for Services	\$798,071
Operating Grants, Contributions and Interest	967,193
Capital Grants and Contributions	875
Total Program Revenues	1,766,139
General Revenues:	
Property Taxes	2,990,770
Income Tax	1,351,630
Grants and Entitlements	7,295,827
Other	63,120
Total General Revenues	11,701,347
Total Revenues	13,467,486
Program Expenses	
Instruction:	
Regular	5,792,116
Special	1,634,074
Vocational	561,845
Adult/Continuing	943
Support Services:	
Pupils and Instructional Staff	993,393
Board of Education, Administration, Fiscal and Business	1,439,560
Operation and Maintenance of Plant	1,282,080
Pupil Transportation	960,251
Central	371,768
Operation of Non-Instructional Services	630,634
Extracurricular Activities	403,108
Interest and Fiscal Charges	242,214
Total Expenses	14,311,986
Decrease in Net Assets	(\$844,500)

Governmental Activities

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes and income taxes made up 32 percent of revenues for governmental activities for the Preble Shawnee Local School District for fiscal year 2003.

Instruction comprises 56 percent of district expenses. Support services expenses make up 35 percent of the expenses.

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Comparisons to 2002 have not been made because the data is not available.

Table 3

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:		
Regular	\$5,792,116	\$5,431,962
Special	1,634,074	1,154,684
Vocational	561,845	423,878
Adult/Continuing	943	776
Support Services:		
Pupils and Instructional Staff	993,393	948,760
Board of Education, Administration Fiscal and Business	1,439,560	1,400,630
Operation and Maintenance of Plant	1,282,080	1,280,646
Pupil Transportation	960,251	918,052
Central	371,768	346,308
Operation of Non-Instructional Services	630,634	107,334
Extracurricular Activities	403,108	290,603
Interest and Fiscal Charges	242,214	242,214
Total Expenses	\$14,311,986	\$12,545,847

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

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

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

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

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

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

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

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

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

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

The dependence upon tax revenues is apparent. Over 87 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 88 percent. The community, as a whole, is the primary support for the Preble Shawnee Local School District.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,469,862 and expenditures of \$14,343,834. The net change in fund balance for the year was significant in the general fund which had a decrease of \$761,285.

General Fund Budgeting Highlights

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

During the course of the fiscal year 2003, the School District amended its general fund budget once during the fiscal year. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was \$11,393,266. The original budgeted estimate was \$9,380,000. The difference between the original and final budget is a result of not including original estimates of revenue into the data processing system for school district income tax in the amount of \$1,359,784 and State of Ohio parity aid in the amount of \$379,233.

During fiscal year 2003, the School District budgeted and received \$2,288,243 and \$7,384,347 property and other taxes and intergovernmental revenues respectively.

Preble Shawnee Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Capital Assets

At the end of the fiscal year 2003, the School District had \$9,806,046 invested in land, land improvement buildings and improvements, furniture, fixture, and equipment, and vehicles.

Table 4 shows fiscal 2003 balances compared to 2002.

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

	2002	2003
Land	\$247,991	\$247,991
Land Improvements	91,852	94,602
Buildings and Improvements	9,198,575	8,890,300
Furniture and Equipment	365,178	377,802
Vehicles	126,875	195,351
Totals	\$10,030,471	\$9,806,046

Overall capital assets decreased \$224,425 from fiscal year 2002 to fiscal year 2003. Increases in capital assets (primarily improvements, equipment and vehicles) were not enough to offset the depreciation expense for the year.

For more information on capital assets, see Note 10 of the Basic Financial Statements.

Debt Administration

At June 30, 2003, the School District had two school improvement debt issues outstanding. One issue was issued on December 1, 1982 and will be retired on December 1, 2006. This project built a new high school for the district. The second issue was originally dated March 3, 1999. This project provided for additions to both the School District's elementary schools.

Table 5
Outstanding Debt at June 30,

	2002	2003
School Improvement Bond – 1982	\$880,000	\$705,000
School Improvement Bond – 1999	3,415,000	3,325,000
Totals	\$4,295,000	\$4,030,000

At June 30, 2003, the School District's overall legal debt limitation was \$8,869,942.

For more information on the School District's debt, see Note 15 of the Basic Financial Statements.

Current Financial Issues and Concerns

The recent developments of the Ohio General Assembly related to education finance are of great concern to the Board of Education and Administration of this School District. The legislature has effected a change in the state funding formula whereby declines in student enrollment are immediately translated into funding declines. Due to the large amount of low cost housing within the District, student enrollment can change dramatically from one month to the next. In the past, a three year average of enrollment helped to mollify the effects of this declining enrollment. With the changes made, funding is based on enrollment at a single snapshot in time. This promises to have a tremendous impact on the School District because of widely changing levels of enrollment.

District personnel continue to make strides in the area of curriculum improvement and remediation. This strategy from the Continuous Improvement Plan is an attempt to increase student performance and enhance curriculum instruction. Both goals will promote student learning.

In comparison to other school districts in the State, the School District would be considered a school district suffering with low wealth. Therefore, the School District has not anticipated any meaningful growth in State revenue. Organization and staffing continue to be evaluated in response to these reductions. Legislative activities continue to provide for consequences detrimental to the financial well being of the School District.

In conclusion, the Preble Shawnee Local School District has committed itself to financial excellence for many years. The School District required the passage of a one percent (1.00%) school district income tax in November of 1989. The School District has never required the passage of additional operating millage in the previous thirty-two years. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jack L. Mann, Treasurer at Preble Shawnee Local School District, 124 Bloomfield Street, Camden, Ohio 45311 or email at psbo_jm@swoca.net

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003

	GOVERNMENTAL ACTIVITIES
Assets:	
Cash and Cash Equivalents	\$2,816,685
Accounts Receivable	27,510
Accrued Interest Receivable	1,893
Intergovernmental Receivable	73,576
Inventory of Supplies and Materials	75,263
Prepaid Items	35,191
Income Tax Receivable	568,867
Property and Other Taxes Receivable	3,068,050
Cash and Cash Equivalents With Fiscal Agents	5,644
Depreciable Capital Assets, Net	9,558,055
Land	247,991
Total Assets	16,478,725
Liabilities:	
Accounts Payable	49,681
Accrued Wages and Benefits Payable	1,173,308
Intergovernmental Payable	349,641
Deferred Revenue	2,743,133
Matured Compensated Absences Payable	53,333
Special Termination Benefit Payable	15,000
Accrued Interest Payable	19,095
Matured Interest Payable	5,644
Long Term Liabilities:	
Due Within One Year	317,124
Due In More Than One Year	4,158,020
Total Liabilities	8,883,979
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,776,046
Restricted for:	
Capital Projects	26,625
Debt Service	648,571
Other Purposes	374,024
Unrestricted	769,480
Total Net Assets	\$7,594,746

See Accompanying Notes to the Basic Financial Statements

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS, CONTRIBUTIONS AND INTEREST
Governmental Activities			
Instruction:			
Regular	\$5,792,116	\$217,759	\$141,520
Special	1,634,074	103,415	375,975
Vocational	561,845	5,255	132,712
Adult/Continuing	943	167	0
Support Services:			
Pupils	593,898	0	20,662
Instructional Staff	399,495	10,186	13,785
Board of Education	28,325	0	0
Administration	1,076,744	32,004	6,926
Fiscal	327,208	0	0
Business	7,283	0	0
Operation and Maintenance of Plant	1,282,080	0	1,434
Pupil Transportation	960,251	0	42,199
Central	371,768	0	25,460
Operation of Non-Instructional Services	630,634	323,060	200,240
Extracurricular Activities	403,108	106,225	6,280
Interest and Fiscal Charges	242,214	0	0
Total Governmental Activities	<u>\$14,311,986</u>	<u>\$798,071</u>	<u>\$967,193</u>

General Revenues:
 Property Taxes Levied for:
 General Purposes
 Capital Outlay
 Debt Service
 Income Tax
 Grants and Entitlements not Restricted to
 Specific Programs
 Investment Earnings
 Miscellaneous
 Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Note 3

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

<u>PROGRAM REVENUES</u>	<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>
<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>TOTAL GOVERNMENTAL ACTIVITIES</u>
\$875	(\$5,431,962)
0	(1,154,684)
0	(423,878)
0	(776)
0	(573,236)
0	(375,524)
0	(28,325)
0	(1,037,814)
0	(327,208)
0	(7,283)
0	(1,280,646)
0	(918,052)
0	(346,308)
0	(107,334)
0	(290,603)
0	(242,214)
<u>\$875</u>	<u>(12,545,847)</u>

2,349,449
55,437
585,884
1,351,630

7,295,827
62,521
599

11,701,347

(844,500)

8,439,246

\$7,594,746

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	GENERAL	BOND RETIREMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,308,249	\$603,958	\$839,648	\$2,751,855
Receivables:				
Property and Other Taxes	2,691,005	320,867	56,178	3,068,050
Income Tax	568,867	0	0	568,867
Accounts	0	0	27,510	27,510
Intergovernmental	1,295	0	72,281	73,576
Accrued Interest	1,893	0	0	1,893
Interfund	455,029	0	0	455,029
Inventory of Supplies and Materials	49,878	0	25,385	75,263
Prepaid Items	35,191	0	0	35,191
Cash and Cash Equivalents With Fiscal Agents	0	5,644	0	5,644
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	64,830	0	0	64,830
Total Assets	\$5,176,237	\$930,469	\$1,021,002	\$7,127,708
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$47,780	\$0	\$1,901	\$49,681
Accrued Wages and Benefits	1,074,020	0	99,288	1,173,308
Intergovernmental Payable	229,078	0	19,364	248,442
Interfund Payable	0	0	455,029	455,029
Matured Interest Payable	0	5,644	0	5,644
Matured Compensated Absences Payable	53,333	0	0	53,333
Deferred Revenue	2,622,041	281,026	79,785	2,982,852
Special Termination Benefit Payable	15,000	0	0	15,000
Total Liabilities	4,041,252	286,670	655,367	4,983,289
Fund Balances:				
Reserved for Encumbrances	116,484	0	449,830	566,314
Reserved for Property Taxes	159,752	39,841	3,574	203,167
Reserved for Budget Stabilization	64,830	0	0	64,830
Unreserved:				
Designated for Budget Stabilization	326,443	0	0	326,443
Designated for Textbooks and Instructional Materials	1,884	0	0	1,884
Designated for Capital Improvements	126,963	0	0	126,963
Unreserved, Undesignated (Deficit), Reported in:				
General Fund	338,629	0	0	338,629
Special Revenue Funds	0	0	273,167	273,167
Debt Service Fund	0	603,958	0	603,958
Capital Projects Funds	0	0	(360,936)	(360,936)
Total Fund Balances	1,134,985	643,799	365,635	2,144,419
Total Liabilities and Fund Balances	\$5,176,237	\$930,469	\$1,021,002	\$7,127,708

See Accompanying Notes to the Basic Financial Statements

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total Governmental Fund Balance \$2,144,419

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

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

Land	247,991	
Land Improvements	405,994	
Building and Improvements	14,403,828	
Furniture, Fixture and Equipment	1,222,792	
Vehicles	912,904	
Accumulated Depreciation	(7,387,463)	
Total Capital Assets	9,806,046	9,806,046

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

Property Taxes Receivable	121,750	
Income Tax Receivable	90,788	
Accounts Receivable	27,181	
Total Receivables	239,719	239,719

Intergovernmental payables includes contractually required pension
contributions not expected to be paid with expendable available
financial resources and therefore not reported in the fund: (101,199)

Some liabilities are not due and payable in the current period
and therefore are not reported in the funds. Those
liabilities consist of:

Bonds Payable	(4,030,000)	
Accrued Interest on Bonds	(19,095)	
Compensated Absences Payable	(445,144)	
Total Liabilities	(4,494,239)	(4,494,239)

Net assets of Governmental Activities \$7,594,746

See Accompanying Notes to the Basic Financial Statements

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

	GENERAL	BOND RETIREMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:				
Property and Other Taxes	\$2,364,091	\$589,540	\$55,975	\$3,009,606
Income Tax	1,332,547	0	0	1,332,547
Tuition and Fees	255,511	0	63,499	319,010
Interest	62,521	0	1,104	63,625
Intergovernmental	7,385,642	75,192	755,160	8,215,994
Extracurricular Activities	0	0	133,017	133,017
Charges for Services	0	0	310,081	310,081
Gifts and Donations	32,460	0	20,433	52,893
Rent	5,230	0	0	5,230
Miscellaneous	599	0	27,260	27,859
Total Revenues	<u>11,438,601</u>	<u>664,732</u>	<u>1,366,529</u>	<u>13,469,862</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,022,957	0	272,086	5,295,043
Special	1,220,257	0	393,368	1,613,625
Vocational	506,799	0	16,499	523,298
Adult/Continuing	0	0	943	943
Support Services:				
Pupils	527,243	0	58,972	586,215
Instructional Staff	340,065	0	34,085	374,150
Board of Education	28,571	0	0	28,571
Administration	1,016,240	0	47,870	1,064,110
Fiscal	309,035	13,962	1,332	324,329
Business	7,136	0	0	7,136
Operation and Maintenance of Plant	1,232,037	0	6,774	1,238,811
Pupil Transportation	917,822	0	261	918,083
Central	310,993	0	59,259	370,252
Operation of Non-Instructional Services	0	0	587,156	587,156
Extracurricular Activities	278,257	0	116,839	395,096
Capital Outlay	322,082	0	185,905	507,987
Debt Service:				
Principal Retirement	0	265,000	0	265,000
Interest and Fiscal Charges	0	244,029	0	244,029
Total Expenditures	<u>12,039,494</u>	<u>522,991</u>	<u>1,781,349</u>	<u>14,343,834</u>
Excess of Revenues Over (Under) Expenditures	<u>(600,893)</u>	<u>141,741</u>	<u>(414,820)</u>	<u>(873,972)</u>
Other Financing Sources (Uses):				
Transfers - In	0	0	160,392	160,392
Transfers - Out	(160,392)	0	0	(160,392)
Total Other Financing Sources (Uses)	<u>(160,392)</u>	<u>0</u>	<u>160,392</u>	<u>0</u>
Net Change in Fund Balances	(761,285)	141,741	(254,428)	(873,972)
Fund Balances at Beginning of Year - Restated Note 3	<u>1,896,270</u>	<u>502,058</u>	<u>620,063</u>	<u>3,018,391</u>
Fund Balances at End of Year	<u>\$1,134,985</u>	<u>\$643,799</u>	<u>\$365,635</u>	<u>\$2,144,419</u>

See Accompanying Notes to the Basic Financial Statements

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
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 (\$873,972)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	249,819	
Depreciation Expense	(472,074)	
Excess of Capital Outlay Under Depreciation Expense		(222,255)

The cost of disposed capital assets is removed from the capital assets account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(2,170)
------------------------------------	--	---------

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

265,000

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

Property Taxes	(18,836)	
Income Taxes	19,083	
Tuition and Fees	3,473	
Intergovernmental Grants	(6,096)	
Total		(2,376)

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

Net Decrease in Accrued Interest	1,815	
Increase in Compensated Absences	(5,011)	
Increase in Intergovernmental Payable	(5,531)	
Total		(8,727)

Change in Net Assets of Governmental Activities (\$844,500)

See Accompanying Notes to the Basic Financial Statements

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues:				
Property and Other Taxes	\$2,326,300	\$2,288,243	\$2,288,243	\$0
Income Tax	0	1,359,784	1,359,784	0
Tuition and Fees	85,600	262,171	262,171	0
Interest	103,100	60,627	63,790	3,163
Intergovernmental	6,860,000	7,384,347	7,384,347	0
Gifts and Donations	0	32,460	32,460	0
Rent	5,000	5,230	5,230	0
Miscellaneous	0	404	404	0
Total Revenues	9,380,000	11,393,266	11,396,429	3,163
Expenditures:				
Current:				
Instruction:				
Regular	4,951,525	4,968,855	4,968,855	0
Special	1,206,630	1,165,058	1,165,058	0
Vocational	503,375	510,609	510,609	0
Support Services:				
Pupils	518,297	515,984	515,984	0
Instructional Staff	325,273	338,649	338,649	0
Board of Education	40,272	31,641	31,641	0
Administration	866,887	995,231	995,231	0
Fiscal	323,826	329,952	329,952	0
Business	15,302	17,173	17,173	0
Operation and Maintenance of Plant	1,203,855	1,295,445	1,295,445	0
Pupil Transportation	930,705	928,289	928,289	0
Central	332,029	299,563	299,563	0
Operation of Non-Instructional Services	7,299	0	0	0
Extracurricular Activities	328,588	272,829	272,829	0
Capital Outlay	316,740	363,462	363,462	0
Total Expenditures	11,870,603	12,032,740	12,032,740	0
Excess of Revenues Under Expenditures	(2,490,603)	(639,474)	(636,311)	3,163
Other Financing Sources (Uses):				
Refund of Prior Year Expenditure	400	12,807	12,807	0
Advances In	0	74,577	74,577	0
Advances Out	0	(512,049)	(512,049)	0
Transfers - Out	0	(160,392)	(160,392)	0
Total Other Financing Sources (Uses)	400	(585,057)	(585,057)	0
Net Change in Fund Balances	(2,490,203)	(1,224,531)	(1,221,368)	3,163
Fund Balances at Beginning of Year	2,145,020	2,145,020	2,145,020	0
Prior Year Encumbrances Appropriated	305,190	305,190	305,190	0
Fund Balances (Deficit) at End of Year	(\$39,993)	\$1,225,679	\$1,228,842	\$3,163

See Accompanying Notes to the Basic Financial Statements

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2003

Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$53,332</u>
Liabilities:	
Accounts Payable	\$2,258
Intergovernmental Payable	160
Undistributed Monies	8,484
Due to Students	<u>42,430</u>
Total Liabilities	<u>\$53,332</u>

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 89 square miles. It is located in Butler, Montgomery, and Preble Counties, including all of Gasper, German, Gratis, Israel, Lanier, Somers, and Wayne Townships. It is staffed by 81 non-certificated employees, 128 certificated full-time teaching personnel and eight administrative employees to provide services to 1,727 students and other community members. The School District currently operates three instructional buildings and one administrative building.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools and one shared risk pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), the Ohio School Plan (OSP), and the Preble County Consortium (the "Consortium"), respectively. These organizations are presented in Notes 16, 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds:

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

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

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

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

Fiduciary Fund Types:

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. The School District's only fiduciary funds are agency funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The unreimbursed medical claims agency fund accounts for the pretax dollars that employees have taken out of their pay check to be used as needed for medical bills. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements

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

D. Basis of Accounting

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. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions:

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

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

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, rentals, charges for services, student fees and grants.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements from other school districts 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:

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled, with the exception of cash and cash equivalents held by fiscal agents. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents." The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented "cash and cash equivalents with fiscal agents," and represents deposits.

During fiscal year 2003, the School District's investments were limited to funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$62,521, which includes \$18,627 assigned from other funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

F. Interfund Assets/Liabilities

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

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased foods held for resale.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the general fund are amounts required by State statute to be set aside to create a reserve for budget stabilization.

J. Capital Assets and Depreciation

The School District’s only capital assets are general 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 fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-8 years

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Interfund Transactions

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

N. Fund Balance Reserves and Designation

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. The School District also designates a portion of fund balance to indicate tentative plans for future financial resource uses that reflect managerial plans or intent. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. The designation is part of unreserved fund balance. This designation arises when amounts set aside for textbooks, capitalization or budget stabilization exceed the statutory required amount.

O. Net Assets

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

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

P. Pass Through Grant

When the School District has a financial or administrative role in a grant, the grant is reported as revenue and intergovernmental expenditures in a special revenue fund. For fiscal year 2003, this fund was the Bread Loaf School of English special revenue fund, a fellowship grant from the Ohio Department of Education for which the School District serves as fiscal agent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Estimates

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

R. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the certificate that was in effect at the time final appropriations were passed by the Board.

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

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

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures that potentially could arise, in interpretation and practice.

The School District increased the capitalization threshold for capital assets from \$500 to \$2,000. The School District also had an appraisal firm reappraise the capital assets. These caused capital assets to change by \$6,437,964 from \$23,454,448 to \$17,016,484 at June 30, 2002.

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

	General	Bond Retirement	Nonmajor	Totals
Fund Balance June 30, 2002	\$1,880,543	\$502,058	\$620,063	\$3,002,664
Interpretation No. 6	15,727	0	0	15,727
Adjusted Fund Balance June 30, 2002	\$1,896,270	\$502,058	\$620,063	\$3,018,391

GASB 34 Adjustments:

Accounts Receivables	23,708
Intergovernmental Receivable	6,096
Property and Other Local Taxes Receivable	140,586
Income Taxes Receivable	71,705
Capital Assets	10,030,471
Intergovernmental Payable	(95,668)
General Obligation Bonds	(4,295,000)
Accrued Interest Payable	(20,910)
Compensated Absences Payable	(440,133)
Governmental Activities Net Assets June 30, 2002	\$8,439,246

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

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

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds.

NOTE 4 – ACCOUNTABILITY

At June 30, 2003, the Ohio Reads, Summer Intervention, and Title VI special revenue funds had deficit fund balances of \$6,134, \$6,132 and \$472, respectively. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statements.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

	Net Change in Fund Balance
GAAP Basis	(\$761,285)
Net Adjustment for Revenue Accruals	(29,365)
Net Adjustment for Expenditure Accruals	134,239
Unrecorded Cash FY 2003	126
Prepaid Items	16,752
Advances	(437,472)
Adjustment for Encumbrances	(144,363)
Budget Basis	<u>(\$1,221,368)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies 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;

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$250,180 and the bank balance was \$333,046. \$320,065 of the bank balance was covered by Federal Depository Insurance and \$12,981 was considered uninsured and uncollateralized as defined by GASB Statement No. 3. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value invested in Star Ohio at June 30, 2003, was \$2,625,481.

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,875,661	\$0
STAR Ohio	(2,625,481)	2,625,481
GASB Statement No. 3	\$250,180	\$2,625,481

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002, and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7 - PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Butler, Montgomery, and Preble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$159,752 in the general fund, \$39,841 in the bond retirement debt service fund, and \$3,574 in the nonmajor funds. The amount available as an advance at June 30, 2002, was \$83,904 in the general fund, \$20,572 in the bond retirement debt service fund, and \$1,925 in the nonmajor funds. On a full accrual basis, collectable property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$109,917,600	90.66%	\$122,333,990	89.83%
Public Utility	7,981,820	6.58	8,042,080	5.91
Tangible Personal Property	3,344,210	2.76	5,803,298	4.26
Total Assessed Value	<u>\$121,243,630</u>	<u>100.00%</u>	<u>\$136,179,368</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$28.07		\$26.07	

The tax rate decrease was due to a bond levy that expired during fiscal year 2003.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - INCOME TAX

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue credited to the general fund for fiscal year 2003 was \$1,332,547.

NOTE 9 - RECEIVABLES

Receivables at June 30, 2003, consisted of both property and income taxes, accounts (rentals, charges for services, and student fees), intergovernmental grants, accrued interest and interfund. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
General Fund	
Montgomery County ESC	\$1,295
Nonmajor Funds	
Federal Food Reimbursement	17,544
Title VI-B Grant	32,684
Title VI Grant	4,282
Preschool Handicapped Grant	347
Title II-A Grant	15,942
Title II-D Grant	1,482
Total Nonmajor Funds	72,281
Total Intergovernmental Receivables	\$73,576

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - CAPITAL ASSETS

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

	Restated Balance 6/30/02	Additions	Deductions	Balance 6/30/03
Governmental Activities				
Capital Asset, not Being Depreciated:				
Land	\$247,991	\$0	\$0	\$247,991
Capital Assets, Being Depreciated:				
Land Improvements	390,597	15,397	0	405,994
Buildings and Improvements	14,403,828	0	0	14,403,828
Furniture, Fixture, and Equipment	1,100,770	127,622	5,600	1,222,792
Vehicles	873,298	106,800	67,194	912,904
Total Capital Assets, Being Depreciated	16,768,493	249,819	72,794	16,945,518
Less Accumulated Depreciation:				
Land Improvements	(\$298,745)	(\$12,647)	\$0	(\$311,392)
Buildings and Improvements	(5,205,253)	(308,275)	0	(5,513,528)
Furniture, Fixture and Equipment	(735,592)	(112,828)	3,430	(844,990)
Vehicles	(746,423)	(38,324)	67,194	(717,553)
Total Accumulated Depreciation	(6,986,013)	(472,074) *	70,624	(7,387,463)
Capital Assets, Being Depreciated, Net	9,782,480	(222,255)	2,170	9,558,055
Governmental Activities Capital Assets, Net	\$10,030,471	(\$222,255)	\$2,170	\$9,806,046

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$293,867
Special	18,487
Vocational	24,232
Support Services:	298
Pupil	26,297
Instructional Staff	7,562
Administration	147
Fiscal	22,917
Operation and Maintenance of Plant	41,003
Pupil Transportation	1,033
Operation of Non-Instructional Services	8,012
Extracurricular Activities	28,219
Total Depreciation Expense	<u>\$472,074</u>

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Nationwide Insurance for property, fleet, and liability insurance, boiler and machinery, and inland marine coverage.

During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17). The School District contracts for property, fleet, and liability insurance with OSP.

Insurance coverage provided includes the following:

Building and Contents – Replacement Cost (\$1,000 deductible)	\$28,087,600
Inland Marine Coverage (\$100 deductible)	500,000
Boiler and Machinery (\$1,000 deductible)	14,214,200
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000
Educational General Liability	
Bodily Injury and Property Damage	
Per Occurrence	1,000,000
Sexual Abuse Injury	
Per Occurrence	1,000,000
Personal and Advertising Injury	
Per Occurrence	1,000,000
Fire Damage	
Per Occurrence	500,000
Medical Expense	
Per Person	10,000
Per Occurrence	10,000
General Aggregate Limit	3,000,000
Products	
Completed Operations Limit	1,000,000
Employers' Liability and Stop Gap Endorsement	
Bodily Injury By Accident	
Per Occurrence	1,000,000
Bodily Injury By Disease	
Per Employee	1,000,000
Aggregate	1,000,000

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - RISK MANAGEMENT (continued)

Employee Benefits Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability Coverage Form	
Errors and Omissions Injury Limit	1,000,000
Aggregate	2,000,000
Employment Practices Injury Limit	1,000,000
Aggregate	2,000,000
Defense Costs Cap	1,000,000
Defense Costs Aggregate Cap	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There was a \$1,000,000 decrease from the prior year in the building and contents insurance coverage.

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

C. Employee Medical Benefits

For fiscal year 2003, the School District participated in the Preble County Consortium (the "Consortium"), a shared risk pool consisting of five local school districts and an educational service center (See Note 17). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all the Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$134,556, \$92,768, and \$57,866, respectively; 50.36 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$734,791, \$522,551, and \$521,820, respectively; 81.61 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$1,176 made by the School District and \$976 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining members of the board have elected SERS.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the STRS Ohio Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$56,522 for fiscal year 2003.

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$120,917.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to various maximum levels depending on the length of the employee's contract. Upon retirement, payment is made for 30 percent of accrued, but unused sick leave credit.

B. Special Termination Benefit

The School District offers a bonus to certified employees who retire in the first year that they become eligible. For these employees, they must give written notice to the Superintendent by March 15 of the year he/she first becomes eligible for "full retirement" and they must have at least 30 years of service to retire as set forth by the State Teachers Retirement System of Ohio. There were three employees during fiscal year 2003 that were eligible and took the bonus. The amount payable at June 30, 2003 was \$15,000.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - OTHER EMPLOYEE BENEFITS (continued)

C. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Guarantee Mutual.

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Restated Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
School Improvement 1982 10.75%	\$880,000	\$0	\$175,000	\$705,000	\$180,000
School Improvement 1999 5.00%	3,415,000	0	90,000	3,325,000	95,000
Compensated Absences	440,133	110,203	105,192	445,144	42,124
Total Governmental Activities					
Long - Term Liabilities	<u>\$4,735,133</u>	<u>\$110,203</u>	<u>\$370,192</u>	<u>\$4,475,144</u>	<u>\$317,124</u>

School Improvement General Obligation Bonds

On December 1, 1982, Preble Shawnee Local School District issued \$4,050,000 in voted general obligation bonds for the purpose of an addition and improvements to the schools in the District. The bonds were issued for a twenty-four year period with final maturity at December 1, 2006. The debt will be retired from the debt service fund.

On March 3, 1999, Preble Shawnee Local School District issued \$3,692,900 in voted general obligation bonds for the purpose of additions and improvements to the school buildings in the District. The bonds were issued for a twenty-two year period with final maturity at December 1, 2021. The debt will be retired from the debt service fund.

Compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$8,869,942 with an unvoted debt margin of \$136,179 at June 30, 2003.

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$275,000	\$221,478	\$496,478
2005	275,000	198,641	473,641
2006	280,000	175,779	455,779
2007	290,000	152,509	442,509
2008	120,000	138,225	258,225
2009-2013	730,000	600,398	1,330,398
2013-2017	1,005,000	394,694	1,399,694
2018-2022	1,055,000	109,625	1,164,625
<u>Total</u>	<u>\$4,030,000</u>	<u>\$1,991,349</u>	<u>\$6,021,349</u>

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association - The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$26,678 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the general fund. During fiscal year 2003, the School District paid \$11,636 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2003, the School District paid \$6,757 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 17 - INSURANCE PURCHASING POOLS

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

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

Preble Shawnee Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 18 - SHARED RISK POOL

Preble County Consortium - The Preble County Consortium (the “Consortium”), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Consortium is governed by an advisory committee consisting of each member’s superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 101 E. Main Street, Eaton, Ohio 45320.

NOTE 19 - SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The amount reserved for budget stabilization represents refunds received from the Bureau of Workers’ Compensation. Based upon legislative changes, this is the only money still required to be set-aside for this purpose.

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

	<u>Budget Stabilization</u>	<u>Textbooks/ Instructional Materials</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2002	\$64,830	\$26,069	\$82,721
Current Year Set-aside Requirement	0	229,339	229,339
Qualifying Disbursements	0	(280,852)	(306,076)
Current Year Offsets	0	0	(630,597)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$64,830</u>	<u>(\$25,444)</u>	<u>(\$624,613)</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$64,830</u>	<u>\$0</u>	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbooks and instructional materials and capital acquisitions amounts below zero. This extra amount of offsets may be used to reduce the set-aside requirements in future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$64,830.

NOTE 20 - INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The general fund had an interfund receivable at June 30, 2003 of \$455,029, while all other nonmajor funds had interfund payables of \$455,029.

General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the general fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the general fund for the initial advance.

The general fund had transfers out to nonmajor funds of \$160,392 during fiscal year 2003.

Transfers are used to move general fund revenues that are used to subsidize various programs in other funds and to create a balance to be used for future capital acquisition.

NOTE 21 - CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

NOTE 22 - 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 decision is unconstitutional.

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

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

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL 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		10.550		\$ 48,991		\$ 48,991
National School Breakfast Program	05PU-2003	10.553	\$ 4,007	-	\$ 4,007	-
	05PU-2002		687	-	687	-
Total National School Breakfast Program			4,694	-	4,694	-
National School Lunch Program	LLP4-2003	10.555	81,147	-	81,147	-
	LLP4-2002		15,360	-	15,360	-
Total National School Lunch Program			96,507	-	96,507	-
Total Nutrition Cluster			101,201	48,991	101,201	48,991
<i>Total Passed Through Ohio Department of Education</i>			101,201	48,991	101,201	48,991
Total U.S. Department of Agriculture			101,201	48,991	101,201	48,991
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)						
	C1S1-2003	84.010	202,185	-	167,577	-
	C1S1-2002		3,537	-	42,211	-
Total Grants to Local Educational Agencies (ESEA Title I)			205,722	-	209,788	-
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)						
	6BSF-2003-P	84.027	131,409	-	164,093	-
	6BSF-2002-P		1,440	-	1,440	-
Total Special Education: Grants to States (IDEA Part B)			132,849	-	165,533	-
Special Education: Preschool Grant						
	PGS1-2003-P	84.173	3,928	-	4,275	-
Total Special Education Cluster			136,777	-	169,808	-
Safe and Drug Free Schools and Communities						
	DRS1-2003	84.186	8,772	-	8,772	-
	DRS1-2002		0	-	1,184	-
Total Safe and Drug Free Schools and Communities			8,772	-	9,956	-
Eisenhower Professional Development State Grant						
	MSS1-2002	84.281	21	-	21	-
Innovative Education Program Strategy						
	C2S1-2003	84.298	5,531	-	11,893	-
	C2S1-2002		0	-	6,530	-
Total Innovative Education Program Strategy			5,531	-	18,423	-
Title II-D: Technology Literacy Challenge Fund						
	TJS1-2003	84.318	4,054	-	0	-
Title VI-R: Class Size Reduction						
	CRS1-2002	84.340	0	-	14,067	-
	CRS1-2001		0	-	21,490	-
			0	-	35,557	-
School Renovation Grants						
	ATS3-2002	84.352A	893	-	893	-
Title II-A: Improving Teacher Quality						
	TRS1-2003	84.367	61,283	-	63,655	-
<i>Total Passed Through Ohio Department of Education</i>			423,053	-	508,101	-
Total U.S. Department of Education			423,053	-	508,101	-
Total			\$ 524,254	\$ 48,991	\$ 609,302	\$ 48,991

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

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and 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 E – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

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

Preble Shawnee Local School District
Preble County
124 Bloomfield Street
Camden, Ohio 45311

To the Board of Education:

We have audited the financial statements of Preble Shawnee Local School District, Preble County, Ohio (the District), as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated March 9, 2004, in which we noted 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*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated March 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 9, 2004.

This report is intended for the information and use of the audit committee, management, 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

March 9, 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**

Preble Shawnee Local School District
Preble County
124 Bloomfield Street
Camden, Ohio 45311

To the Board of Education:

Compliance

We have audited the compliance of Preble Shawnee Local School District, Preble 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 are applicable to its major federal program for the fiscal year ended June 30, 2003. The District's major federal program is 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 its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the 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 the 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 its major federal program for the fiscal 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 the audit committee, management, 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.



Betty Montgomery
Auditor of State

March 9, 2004

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE 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):	Title I, CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10368-001	Revised Code 5705.41(D), failure to properly certify funds	No	Partially Corrected—Reissued in the Management Letter



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT

PREBLE 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
APRIL 6, 2004**