



**Auditor of State
Betty Montgomery**

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Miami East Local School District, Miami County, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Miami East Local School District, Miami County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

October 17, 2003

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**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$928,990	\$133,103	\$431,484	\$13,546,318
Cash and Cash Equivalents with Fiscal Agent Investments				3,027
Receivables:				
Property Taxes	2,795,199			359,378
Income Taxes	268,755			
Accounts	4,602	2,557		3,215
Intergovernmental	12,499	36,468		
Interfund	19,707			
Accrued Interest	885			
Inventory of Supplies and Materials	36,245			
Inventory Held for Resale				
Prepaid Items	44,769			
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	177,542			
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Debt				
Amount to be Provided for Retirement of General Long-Term Debt				
Total Assets and Other Debits	4,289,193	172,128	431,484	13,911,938
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	33,263	8,178		696
Contracts Payable				145,119
Retainage Payable				9,681
Accrued Wages and Benefits Payable	594,283	16,371		
Intergovernmental Payable	238,354	4,577		
Interfund Payable		19,707		
Due to Students				
Undistributed Monies				
Deferred Revenue	2,750,687	18,033		346,833
Compensated Absences Payable	35,267			
Accrued Interest Payable				1,589
Notes Payable				2,000,000
General Obligation Bonds Payable				
Total Liabilities	3,651,854	66,866	431,484	2,503,918
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved (Deficit)				
Fund Balance:				
Reserved for Encumbrances	96,281	22,367		533,453
Reserved for Inventory of Supplies and Materials	36,245			
Reserved for Property Taxes	91,569			12,545
Reserved for Endowments				
Reserved for Textbook Purchases	177,542			
Unreserved, Undesignated	235,702	82,895	431,484	10,862,022
Total Fund Equity (Deficit) and Other Credits	637,339	105,262	431,484	11,408,020
Total Liabilities, Fund Equity and Other Credits	\$4,289,193	\$172,128	\$431,484	\$13,911,938

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$27,560	\$60,881			\$15,128,336
	30,252			3,027
				30,252
				3,154,577
				268,755
1,384				11,758
8,147				57,114
				19,707
				885
1,534				37,779
10,317				10,317
				44,769
				177,542
7,575		5,554,366		5,561,941
			431,484	431,484
			10,427,267	10,427,267
<u>56,517</u>	<u>91,133</u>	<u>5,554,366</u>	<u>10,858,751</u>	<u>35,365,510</u>
				42,137
				145,119
21,097				9,681
18,044			65,511	631,751
				326,486
				19,707
	44,907			44,907
	1,830			1,830
				3,115,553
19,475			744,801	799,543
				1,589
				2,000,000
			10,048,439	10,048,439
<u>58,616</u>	<u>46,737</u>	<u></u>	<u>10,858,751</u>	<u>17,186,742</u>
		5,554,366		5,554,366
4,760				4,760
(6,859)				(6,859)
				652,101
				36,245
				104,114
	30,010			30,010
				177,542
	14,386			11,626,489
<u>(2,099)</u>	<u>44,396</u>	<u>5,554,366</u>	<u></u>	<u>18,178,768</u>
<u>\$56,517</u>	<u>\$91,133</u>	<u>\$5,554,366</u>	<u>\$10,858,751</u>	<u>\$35,365,510</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:						
Property and Other Taxes	\$2,702,135			\$343,995		\$3,046,130
Income Taxes	572,188					572,188
Tuition and Fees	320,793					320,793
Gifts and Donations	25	10,104			9,444	19,573
Interest	38,492	186	8,231	376,820	117	423,846
Intergovernmental	4,691,382	213,165		52,532		4,957,079
Extracurricular Activities	2,020	136,011				138,031
Decrease in Fair Value of Investments				(12,658)		(12,658)
Miscellaneous	29,406	38,974	7,841	3,215		79,436
Total Revenues	8,356,441	398,440	16,072	763,904	9,561	9,544,418
Expenditures:						
Current:						
Instruction:						
Regular	4,072,801	32,805		1,300		4,106,906
Special	487,401	171,802				659,203
Vocational	212,895					212,895
Support Services:						
Pupils	307,385	154,911			500	462,796
Instructional Staff	227,387	159,876		7,361		394,624
Board of Education	82,309					82,309
Administration	898,035	8,597				906,632
Fiscal	258,605	393		6,067		265,065
Business	23,564	229				23,793
Operation and Maintenance of Plant	743,955	21				743,976
Pupil Transportation	622,082	16,504		55,312		693,898
Central	208,254	24,966		88,170		321,390
Operation of Non-Instructional Services	141	6,249			250	6,640
Extracurricular Activities	233,845	96,050				329,895
Capital Outlay	102,808	5,928		942,338		1,051,074
Debt Service:						
Interest and Fiscal Charges			463,790	1,589		465,379
Total Expenditures	8,481,467	678,331	463,790	1,102,137	750	10,726,475
Excess of Revenues Over (Under) Expenditures	(125,026)	(279,891)	(447,718)	(338,233)	8,811	(1,182,057)
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	10,435					10,435
Operating Transfers - In		270,047		1,181,483		1,451,530
Operating Transfers - Out	(696,319)	(5,211)		(750,000)		(1,451,530)
Total Other Financing Sources (Uses)	(685,884)	264,836		431,483		10,435
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(810,910)	(15,055)	(447,718)	93,250	8,811	(1,171,622)
Fund Balances at Beginning of Year	1,443,682	120,317	879,202	11,314,770	3,604	13,761,575
Increase in Reserve for Inventory	4,567					4,567
Fund Balances at End of Year	\$637,339	\$105,262	\$431,484	\$11,408,020	\$12,415	\$12,594,520

See Accompanying Notes to the General Purpose Financial Statements.

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**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property and Other Taxes	\$2,789,121	\$2,789,121				
Income Taxes	640,717	640,717				
Tuition and Fees	320,437	320,437				
Interest	39,876	39,876		186	186	
Intergovernmental	4,668,176	4,668,176		187,341	187,341	
Extracurricular Activities	2,020	2,020		142,200	142,200	
Gifts and Donations	25	25		10,104	10,104	
Miscellaneous	30,269	30,269		38,129	38,129	
Total Revenues	8,490,641	8,490,641		377,960	377,960	
Expenditures:						
Current:						
Instruction:						
Regular	3,987,825	3,987,825		39,942	39,942	
Special	486,824	486,824		177,671	177,671	
Vocational	214,048	214,048				
Other	29,345	29,345				
Support Services:						
Pupils	344,682	344,682		163,890	163,890	
Instructional Staff	205,066	205,066		153,688	153,688	
Board of Education	82,375	82,375				
Administration	908,263	908,263		9,863	9,863	
Fiscal	262,767	262,767				
Business	26,573	26,573		348	348	
Operation and Maintenance of Plant	817,846	817,846		21	21	
Pupil Transportation	662,864	662,864		17,576	17,576	
Central	211,137	211,137		24,992	24,992	
Operation of Non-Instructional Services	241	241		6,839	6,839	
Extracurricular Activities	236,685	236,685		100,521	100,521	
Capital Outlay	102,302	102,302		5,928	5,928	
Debt Service:						
Principal Retirement	35,000	35,000				
Interest and Fiscal Charges	1,897	1,897				
Total Expenditures	8,615,740	8,615,740		701,279	701,279	
Excess of Revenues Over (Under) Expenditures	(125,099)	(125,099)		(323,319)	(323,319)	
Other Financing Sources (Uses):						
Proceeds from Sale of Notes						
Other Financing Sources	17,431	17,431				
Proceeds from Sale of Fixed Assets	10,435	10,435				
Refund of Prior Year Expenditures	1,439	1,439		110	110	
Refund of Prior Year Receipts				(5,302)	(5,302)	
Advances In				19,707	19,707	
Advances Out	(19,707)	(19,707)				
Operating Transfers - In				270,047	270,047	
Operating Transfers - Out	(696,319)	(696,319)		(5,211)	(5,211)	
Total Other Financing Sources (Uses)	(686,721)	(686,721)		279,351	279,351	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(811,820)	(811,820)		(43,968)	(43,968)	
Fund Balances at Beginning of Year	1,461,810	1,461,810		132,720	132,720	
Prior Year Encumbrances Appropriated	237,702	237,702		18,557	18,557	
Fund Balances at End of Year	\$887,692	\$887,692	\$0	\$107,309	\$107,309	\$0

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service			Capital Projects			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$356,166	\$356,166				
8,231	8,231		345,520	345,520		117	117	
			52,532	52,532				
						9,444	9,444	
<u>8,231</u>	<u>8,231</u>		<u>754,218</u>	<u>754,218</u>		<u>9,561</u>	<u>9,561</u>	
			1,300	1,300				
			7,361	7,361		500	500	
			6,067	6,067				
			55,312	55,312				
			89,370	89,370		250	250	
			1,524,514	1,524,514				
<u>463,790</u>	<u>463,790</u>		<u>1,683,924</u>	<u>1,683,924</u>		<u>750</u>	<u>750</u>	
<u>463,790</u>	<u>463,790</u>							
<u>(455,559)</u>	<u>(455,559)</u>		<u>(929,706)</u>	<u>(929,706)</u>		<u>8,811</u>	<u>8,811</u>	
			2,000,000	2,000,000				
7,841	7,841							
			1,181,483	1,181,483				
			(750,000)	(750,000)				
<u>7,841</u>	<u>7,841</u>		<u>2,431,483</u>	<u>2,431,483</u>				
(447,718)	(447,718)		1,501,777	1,501,777		8,811	8,811	
879,202	879,202		10,591,388	10,591,388		3,104	3,104	
			781,104	781,104		500	500	
<u>\$431,484</u>	<u>\$431,484</u>	<u>\$0</u>	<u>\$12,874,269</u>	<u>\$12,874,269</u>	<u>\$0</u>	<u>\$12,415</u>	<u>\$12,415</u>	<u>\$0</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCE
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Revenues:			
Sales	\$303,540		\$303,540
Interest		1,154	1,154
Contributions and Donations		10	10
Total Operating Revenues	<u>303,540</u>	<u>1,164</u>	<u>304,704</u>
Operating Expenses:			
Salaries and Wages	153,880		153,880
Fringe Benefits	50,353		50,353
Purchased Services	4,520		4,520
Supplies and Materials	9,744		9,744
Cost of Sales	193,730		193,730
Other	1,610	2,000	3,610
Depreciation	996		996
Total Operating Expenses	<u>414,833</u>	<u>2,000</u>	<u>416,833</u>
Operating Loss	<u>(111,293)</u>	<u>(836)</u>	<u>(112,129)</u>
Non-Operating Revenues:			
Federal Donated Commodities	46,116		46,116
Interest Revenue	425		425
Federal and State Subsidies	57,917		57,917
Total Non-Operating Revenues	<u>104,458</u>		<u>104,458</u>
Net Loss	(6,835)	(836)	(7,671)
Retained Earnings (Deficit)/Fund Balance at Beginning of Year	<u>(24)</u>	<u>32,817</u>	<u>32,793</u>
Retained Earnings (Deficit)/Fund Balance at End of Year	<u><u>(\$6,859)</u></u>	<u><u>\$31,981</u></u>	<u><u>\$25,122</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Enterprise Funds</u>			<u>Nonexpendable Trust Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
Sales	\$304,345	\$304,345				
Federal and State Subsidies	49,769	49,769				
Interest	425	425		1,154	1,154	
Refund of Prior Year Expense	2,305	2,305				
Contributions and Donations				10	10	
Total Revenues	<u>356,844</u>	<u>356,844</u>		<u>1,164</u>	<u>1,164</u>	
Expenses:						
Salaries and Wages	150,967	150,967				
Fringe Benefits	48,738	48,738				
Purchased Services	5,820	5,820				
Supplies and Materials	158,887	158,887				
Capital Outlay	518	518				
Other	1,610	1,610		2,500	2,500	
Total Expenses	<u>366,540</u>	<u>366,540</u>		<u>2,500</u>	<u>2,500</u>	
Excess of Revenues Over (Under) Expenses	(9,696)	(9,696)		(1,336)	(1,336)	
Fund Equity at Beginning of Year	33,753	33,753		30,818	30,818	
Prior Year Encumbrances Appropriated	1,192	1,192		2,500	2,500	
Fund Equity at End of Year	<u>\$25,249</u>	<u>\$25,249</u>	<u>\$0</u>	<u>\$31,982</u>	<u>\$31,982</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$304,345		\$304,345
Contributions and Donations			
Other Cash Receipts	2,305		2,305
Cash Payments for Employee Services and Benefits	(199,705)		(199,705)
Cash Payments to Suppliers for Goods and Services	(162,913)		(162,913)
Other Operating Expenses	(1,610)	(2,500)	(4,110)
Net Cash Used In Operating Activities	<u>(57,578)</u>	<u>(2,500)</u>	<u>(60,078)</u>
Cash Flows from Noncapital Financing Activities:			
Federal and State Subsidies Received	49,769		49,769
Net Cash Provided By Noncapital Financing Activities	<u>49,769</u>		<u>49,769</u>
Cash Flows from Investing Activities:			
Interest	425	1,154	1,579
Sale of Investments	0	580	580
Net Cash Provided By Investing Activities	<u>425</u>	<u>1,734</u>	<u>2,159</u>
Net Decrease in Cash and Cash Equivalents	(7,384)	(766)	(8,150)
Cash and Cash Equivalents Beginning of Year	34,944	2,485	37,429
Cash and Cash Equivalents End of Year	<u>\$27,560</u>	<u>\$1,719</u>	<u>\$29,279</u>
Reconciliation of Operating Loss to Net			
Cash Used In Operating Activities:			
Operating Loss	(111,293)	(836)	(112,129)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:			
Depreciation	996		996
Donated Commodities Used	48,942		48,942
Interest		(1,154)	(1,154)
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	806		806
Increase in Inventory of Supplies and Materials	(140)		(140)
Decrease in Inventory Held for Resale	(169)		(169)
Decrease in Accounts Payable	(1,248)	(500)	(1,748)
Increase in Accrued Wages Payable	316		316
Increase in Intergovernmental Payable	1,615		1,615
Increase in Compensated Absences Payable	2,597		2,597
Net Cash Used In Operating Activities	<u>(\$57,578)</u>	<u>(\$2,490)</u>	<u>(\$60,068)</u>
Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Funds to Balance Sheet			
Cash and Cash Equivalents-All Fiduciary Funds		60,881	
Cash and Cash Equivalents-Expendable Trust Funds and Agency Funds		<u>(59,152)</u>	
Cash and Cash Equivalents-Nonexpendable Trust Funds		<u>\$1,729</u>	

Non-Cash Transactions:

During Fiscal Year 2003, the Food Service Enterprise Fund received \$46,116 in Donated Commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1956 through the consolidation of existing land areas and School Districts. The School District serves an area of approximately 118 square miles. It is located in Miami County, and includes all of the Villages of Casstown and Fletcher; Brown, Elizabeth, Lostcreek and Staunton Townships; and portions of Springcreek and Bethel Townships. The School District is staffed by 57 non-certificated employees, 81 certificated full-time teaching personnel and 9 administrative employees who provide services to 1,354 students and other community members. The School District currently operates 5 instructional buildings.

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

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

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

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

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

The School District is associated with three jointly governed organizations and two insurance purchasing pools. These organizations are presented in Notes 20 and 21 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

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

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

1. Governmental Fund Types:

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

2. Proprietary Fund Type:

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

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

3. Fiduciary Fund Types:

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

4. Account Groups:

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will be not collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Process

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

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

1. Tax Budget:

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003. At fiscal year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

3. Appropriations:

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

Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, one supplemental appropriation was legally enacted. This amendment was significant, decreasing appropriations of \$23,389,068 by \$9,863,749 to \$13,525,319. Prior to fiscal year-end, the School District passes appropriations to match expenditures plus encumbrances.

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

Ohio law prohibits having budgetary expenditures in excess of appropriations at the legal level of control. At May 30, 2003, various budgetary expenditures of the School District exceeded appropriations.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Encumbrances:

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

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

5. Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

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

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

During fiscal year 2003, investments were limited to a repurchase agreement, certificates of deposit, STAR Ohio (State Treasury Asset Reserve of Ohio), a money market mutual fund, and U.S. Treasuries.

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

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 \$38,492 which includes \$11,192 assigned from other School District funds.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Interfund Assets/Liabilities

Short term interfund loans are classified as "Interfund Receivables" and "Interfund Payables".

F. Inventory

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

G. 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 the purchase and an expenditure is reported in the fiscal year in which services are consumed.

H. Restricted Assets

Restricted assets in the General Fund are cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent unexpended revenues restricted for amounts required by statute to be set-aside by the School District for the purchase of textbooks. See Note 24 for additional information regarding set-asides.

I. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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 seven hundred fifty dollars. The School District does not have any infrastructure.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Compounded Interest on Capital Appreciation Bonds

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Contributed Capital

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

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

N. Fund Balance Reserves

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. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory of supplies and materials, property taxes, endowments, and textbook and instructional materials.

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

O. Interfund Transactions

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

P. Estimates

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

Q. Total Columns on General Purpose Financial Statements

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

3. RESTATEMENT OF FUND EQUITY

The School District implemented a new fixed assets policy which increases the capitalization threshold for fixed assets from \$500 to \$750. The reason for the change was to reduce the cost of maintaining fixed asset information by significantly reducing the number of immaterial items tracked. For the General Fixed Assets Account Group, the balance at June 30, 2002, decreased by \$548,995, from \$5,127,800 to \$4,578,805. The enterprise funds' retained earnings were not affected since the items were fully depreciated.

4. ACCOUNTABILITY

At June 30, 2003, the Title VI and Title VI-R Special Revenue Funds and the Food Service Enterprise Fund had deficit fund balance/retained earnings of \$2,705, \$3,481 and \$13,171. The fund deficits in the Title VI and Title VI-R Special Revenue Funds will be eliminated when the advances in, shown as interfund payables, are paid off. The deficit in the Food Service Enterprise Fund is a result of accumulated losses. The School District is analyzing food operations to determine appropriate steps to alleviate the deficit. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. Proceeds from principal payments and on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Advances are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
6. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are recorded as revenue on the GAAP basis operating statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund**

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	(\$810,910)	(\$15,055)	(\$447,718)	\$93,250	\$8,811
Revenue Accruals	151,771	(13,202)	0	8,956	0
Expenditure Accruals	97,301	(9,624)	0	104,134	0
Prepaid Items	23,565	0	0	0	0
Loan Principal Payments	(35,000)	0	0	0	0
Proceeds from Sale of Notes	0	0	0	2,000,000	0
Advances	(19,707)	19,707	0	0	0
Unrecorded Cash FY03	0	0	0	(31,300)	0
Decrease in Fair Value of Investments FY03	0	0	0	45,172	0
Decrease in Fair Value of Investments FY02	0	0	0	(32,514)	0
Encumbrances	(218,840)	(25,794)	0	(685,921)	0
Budget Basis	(\$811,820)	(\$43,968)	(\$447,718)	\$1,501,777	\$8,811

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

	Enterprise	Nonexpendable Trust
GAAP Basis	(\$6,835)	(\$836)
Revenue Accruals	(5,038)	0
Expense Accruals	3,183	(500)
Inventory of Supplies and Materials	140	0
Inventory Held for Resale	169	0
Depreciation Expense	996	0
Encumbrances	(2,311)	0
Budget Basis	<u>(\$9,696)</u>	<u>(\$1,336)</u>

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 accounts including passbook accounts.

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

Interim monies may be invested in the following securities:

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$6,248,859 and the bank balance was \$6,320,195. Of the bank balance:

1. \$191,091 was covered by federal depository insurance; and
2. \$6,129,104 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District held to a successful claim by the Federal Deposit Insurance Corporation.

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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

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

	Category 2	Category 3	Unclassified	Carrying/ Fair Value
Repurchase Agreement	\$0	\$1,017,626	\$0	\$1,017,626
Star Ohio	0	0	1,159,645	1,159,645
Fifth Third Institutional Government Money Market Mutual Fund	0	0	118,246	118,246
Federal Home Loan Mortgage Corporation (FHLMC) Notes	2,403,950	0	0	2,403,950
Federal Home Loan Bank Bonds	3,708,281	0	0	3,708,281
Federal National Mortgage Association (FNMA) Notes	682,550	0	0	682,550
Total	\$6,794,781	\$1,017,626	\$1,277,891	\$9,090,298

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$15,308,905	\$30,252
Investments of the Cash Management Pool:		
Certificates of Deposit	30,252	(30,252)
STAR Ohio	(1,159,645)	1,159,645
Repurchase Agreement	(1,017,626)	1,017,626
Money Market Fund	(118,246)	118,246
Federal Home Loan Mortgage Corporation (FHLMC) Notes	(2,403,950)	2,403,950
Federal Home Loan Bank Bonds	(3,708,281)	3,708,281
Federal National Mortgage Association (FNMA) Notes	(682,550)	682,550
GASB Statement No. 3	\$6,248,859	\$9,090,298

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 located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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 Miami County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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 \$91,569 in the General Fund and \$12,545 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2002, was \$178,555 in the General Fund and \$24,716 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which 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	\$122,831,160	82.54%	\$124,400,290	88.19%
Public Utility Real	29,580	0.02	31,210	0.02
Tangible Personal Property	25,958,620	17.44	16,624,870	11.79
Total Assessed Value	\$148,819,360	100.00%	\$141,056,370	100.00%
Tax rate per \$1,000 of assessed valuation	\$44.08		\$44.08	

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

8. INCOME TAX

The School District levies a voted tax of 0.5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

9. RECEIVABLES

Receivables at June 30, 2003, consisted of both property and income taxes, accounts (tuition and student fees), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

General Fund

Workers' Compensation Refund	\$181
Refund	421
SF3 Adjustment	9,386
Refund from Montgomery County ESC	<u>2,511</u>
	<u>\$12,499</u>

Special Revenue Funds

Student Activities	\$100
Miscellaneous Federal Grants	1,606
Title VI-R	27,626
Title VI	4,646
Drug Free Schools	<u>2,490</u>
	<u>36,468</u>

Enterprise Fund

Food Service	<u>8,147</u>
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Grand Total

\$57,114

10. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$132,818
Less Accumulated Depreciation	(125,243)
Net Fixed Assets	<u><u>\$7,575</u></u>

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

10. FIXED ASSETS (Continued)

A summary of the changes in general fixed assets during fiscal year 2003 follows:

Asset Category	Restated Balance at 6/30/2002	Additions	Deletions	Balance at 6/30/2003
Land and Improvements	\$891,674	\$10,696	\$8,584	\$893,786
Construction in Progress	\$44,496	\$611,727	\$0	\$656,223
Buildings and Improvements	\$1,263,025	\$274,222	\$6,135	\$1,531,112
Furniture, Fixtures and Equipment	\$1,245,303	\$133,444	\$117,322	\$1,261,425
Vehicles	\$1,134,307	\$121,299	\$43,786	\$1,211,820
Totals	\$4,578,805	\$1,151,388	\$175,827	\$5,554,366

11. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Ohio School Plan for property, fleet, inland marine coverage and liability insurance. Builder's Risk insurance is purchased through Indiana Insurance Company. Coverage provided by both plans is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$ 26,416,536
Inland Marine Coverage (\$100 deductible)	128,388
Crime Insurance	25,000
Automobile Liability (No deductible)	1,000,000
Uninsured Motorists (No deductible)	50,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Umbrella	1,000,000
Fire Damage Limit (Any one fire)	500,000
Medical Expense Limit (Any one person)	10,000
Builder's Risk	12,346,200

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

11. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 21). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping representation with other participants in the GRP. The workers' compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of CompManagement Health Systems, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 21). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating School Districts is calculated and a premium rate is applied to all School Districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to School Districts that can meet the MBP's selection criteria.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

12. DEFINED BENEFIT PENSION PLANS

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 \$117,948, \$46,935 and \$37,735 respectively; 56 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$559,532, \$376,467, and \$376,570 respectively; 84 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 \$6,002 made by the School District and \$8,115 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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining Board members contribute to SERS.

13. POST-EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$193,684 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve 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 were \$354,697,000 and STRS 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

13. POST-EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year ended June 30, 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 \$104,251.

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.

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 281 days for all certified personnel and 228 days for all classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation (classified staff only --not to exceed 48 days except when retiring in the 30th year of cumulative experience the total shall not exceed 57 days).

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all employees through the Horace Mann Life Insurance Company. Medical/Surgical benefits are provided by Anthem through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 21). The School District also provides dental insurance through CoreSource, and vision insurance through Vision Insurance Plan to all eligible employees.

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

14. OTHER EMPLOYEE BENEFITS

C. Deferred Compensation Plan

School District employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan. The plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

15. FUND OBLIGATIONS

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

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

	Principal Outstanding 6/30/2002	Additions	Deductions	Principal Outstanding 6/30/2003
Energy Conservation Loan 1995 (5.42%)	\$35,000	\$0	\$35,000	\$0
School Improvement Bond Anticipation Note 2003 1.43%	0	2,000,000	0	\$2,000,000
Total	\$35,000	\$2,000,000	\$35,000	\$2,000,000

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

16. LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/2002	Additions	Deductions	Amount Outstanding 6/30/2003
Long-Term Debt				
2.85-5.125%-2002 School Improvement Bond	\$10,002,941	\$45,498	\$0	\$10,048,439
Other Long-Term Obligations				
Intergovernmental Payable	60,757	65,511	60,757	65,511
Compensated Absences	613,681	131,120	0	744,801
Total Other Long-Term Obligations	674,438	196,631	60,757	810,312
Total General Long-Term Obligations	<u>\$10,677,379</u>	<u>\$242,129</u>	<u>\$60,757</u>	<u>\$10,858,751</u>

On June 1, 2002 the School District entered into a 27 year \$9,999,992 general obligation bond. The bond will be repaid with property tax revenue allocated from the General Fund and the Permanent Improvement Capital Projects Fund. The bond is backed by the full faith and credit of the School District. The bond will be paid from the Debt Service Fund.

The bonds on the financial statements reflect the principal amount of \$9,999,992 along with the capital appreciation bond accretion \$48,447 for a total of \$10,048,439.

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

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

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

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

Bonds maturing in the fiscal years 2009 through 2013 were issued as capital appreciation bonds, which mature in the principal amounts on the dates and will bear interest compounded semiannually on June 1 and December 1 of each year beginning in 2003; at the compounding rates per year. The compounded interest on the capital appreciation bonds is reflected as an addition to the revenue bonds payable. During fiscal year 2003, the bonds were accreted \$45,498 for a balance at June 30, 2003, of \$253,439. The maturity amount of the capital appreciation bonds is \$1,750,000.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

16. LONG-TERM OBLIGATIONS (Continued)

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

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

The School District's voted legal debt margin was \$1,126,565 and an unvoted debt margin of \$141,056 at June 30, 2003.

Principal and interest requirements to retire the School District's general obligation bond outstanding at June 30, 2003, were as follows:

Fiscal Year	Principal	Interest
2004	\$0	\$463,790
2005	295,000	463,790
2006	305,000	455,383
2007	315,000	445,470
2008	325,000	434,603
2009-2013	568,777	3,281,358
2014-2018	1,524,462	2,273,586
2019-2023	2,325,000	1,474,142
2024-2028	2,975,000	830,288
2029-2030	1,415,000	109,675
Total	\$10,048,439	\$10,232,085

Changes in the long-term obligations reported in the Enterprise Funds during fiscal year 2003 were as follows:

	Amount Outstanding 6/30/2002	Additions	Deductions	Amount Outstanding 6/30/2003
Intergovernmental Payable	\$16,429	\$18,044	\$16,429	\$18,044
Compensated Absences	16,878	2,597	0	19,475
Total General Long-Term Obligations	\$33,307	\$20,641	\$16,429	\$37,519

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

17. CONTRACTUAL COMMITMENTS

As of June 30, 2003, the School District had contractual purchase commitments as follows:

Contractor	Project	Contract Amount	Amount Expended	Balance at 6/30/03
Buehrer Group Architect	Architectural/ Engineering Services	\$719,928	\$499,223	\$220,705
CTL Engineering	Materials Testing	12,935	3,268	9,667
D&M Excavating Inc.	Site Work	409,988	128,711	281,277
Total		\$1,142,851	\$631,202	\$511,649

The School District will be authorizing additional contracts in the future as the new building project progresses. This is a \$12,000,000 project.

18. INTERFUND ACTIVITY

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$19,707	\$0
Special Revenue Funds:		
Public School Support	0	1,865
Title VI	0	7,436
Title VI-R	0	10,406
Total Special Revenue Funds	0	19,707
Total All Funds	\$0	\$19,707

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

19. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Miami East Local School District as of and for the fiscal year ended June 30, 2003.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$263,649	\$39,891	\$303,540
Depreciation Expense	996	0	996
Operating Income (Loss)	(116,734)	5,441	(111,293)
Federal Donated Commodities	46,116	0	46,116
Interest	425	0	425
Federal and State Subsidies	57,917	0	57,917
Net Income (Loss)	(12,276)	5,441	(6,835)
Net Working Capital (Deficit)	3,489	6,312	9,801
Total Assets	50,205	6,312	56,517
Long-Term Compensated Absences Payable	19,475	0	19,475
Total Equity (Deficit)	(8,411)	6,312	(2,099)
Encumbrances Outstanding at June 30, 2003	\$2,311	\$0	\$2,311

20. JOINTLY GOVERNED ORGANIZATIONS

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

The governing board of MDECA consists of seven Superintendents of member School Districts with six of the Superintendents elected by majority vote of all member School Districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Education Service Center. The School District paid MDECA \$53,344 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

20. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2003, Miami East Local School District paid \$2,731 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Kenneth Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2003, the School District paid \$6,262 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.

21. INSURANCE PURCHASING POOLS

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

Southwestern Ohio Educational Purchasing Council Member Benefits Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Member Benefit Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the Superintendent or Treasurer from each participating School District serves on the general assembly. Each year the participating School Districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

22. CONTINGENCIES

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

23. SCHOOL FUNDING COURT 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.

24. SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Acquisitions
Set-aside Cash Balance as of June 30, 2002	\$142,951	\$0
Current Year Set-aside Requirement	181,282	181,282
Offsets	0	(356,166)
Qualifying Disbursements	(146,691)	0
Total	\$177,542	(\$174,884)
Set-Aside Cash Balance Carried Forward to Future Fiscal Years	\$177,542	\$0
Set-Aside Reserve Balance as of June 30, 2003	\$177,542	\$0

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

24. SET-ASIDE CALCULATIONS (Continued)

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

25. SUBSEQUENT EVENT

As of September 9, 2003, the School District had contractual purchase commitments as follows:

Contractor	Project	Contract Amount
Areas Energy & Electric, Inc	K-8 Building – Electrical	\$1,648,012
Dayton Fire Protection	K-8 Building – Fire Protection	181,244
D & M Excavating Inc.	K-8 Building – Site Work	161,089
Farnham Equipment Company	K-8 Building – Library Furniture	63,800
Peterson Construction Company	K-8 Building – General Contractor	7,475,500
Regal Plumbing & Heating	K-8 Building – HVAC	1,110,739
Slagle Mechanical Contractors	K-8 Building – Plumbing	444,600
Tiffin Science Studios	K-8 Building – Stage Riggings	29,722
Total		\$11,114,706



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the Miami East Local School District (the "District"), Miami County as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated October 17, 2003.

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 October 17, 2003.

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

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

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

Betty Montgomery
Auditor of State

October 17, 2003

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 5705.41(D), provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money without attaching thereto the certificate of the fiscal officer of the subdivision that the amount required to meet the same in the fiscal year in which the contract is made has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Contracts and orders for expenditure lacking prior certification should be null and void.

This section also provides an exception to this requirement:

If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that these funds were properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000 (\$3,000 effective after April 7, 2003) the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

The District Treasurer did not certify the availability of funds prior to incurring the obligation for 18% of the items examined for fiscal 2003, and the exception above was not utilized.

The District should implement policies and procedures to improve compliance with the prior certification requirement.

FINDING NUMBER 2003-002

Ohio Rev. Code Section 5705.41 (B), states that a subdivision or taxing unit shall not expend funds until they have been appropriated. Our review of the amounts budgeted and expended as of May 30, 2003, noted that the District had expenditures that exceeded the amounts appropriated at the fund, function, object level, which is the legal level of control adopted by the Board of Education. Fund expenditures which exceeded the amounts appropriations were as follows:

FUND/FUNCTION/OBJECT	AMOUNT APPROPRIATED	EXPENDITURES PLUS ENCUMBRANCES	UNFAVORABLE VARIANCE
General Fund:			
Regular Instruction – Supplies & Materials	\$ 3,000	\$10,384	\$7,384
Special Instruction – Purchased Services	9,666	24,445	14,779
Vocational Instruction – Salaries	1,700	83,542	81,842
Support Services – Pupils – Purch. Services	25,568	59,633	34,065
Fiscal Services – Fringe Benefits	14,650	42,375	27,725
Operation & Maintenance – Purch. Services	327,424	382,031	54,607
Athletic Fund:			
Sports Oriented Activities – Purch. Services	30,861	37,046	6,185
Title 1 Fund:			
Special Instruction – Salaries	40,000	58,802	18,802

To improve compliance with the above referenced section of code, the District should compare budgetary expenditures with appropriations each month. In instances where appropriations are insufficient to meet projected expenditures, the Board of Education should pass a resolution to amend appropriations, or reduce anticipated spending.

**MIAMI EAST LOCAL SCHOOL DISTRICT
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED 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 <u>Longer Valid</u> ; <i>Explain:</i>
2002-001	Ohio Rev. Code Section 149.351 – destruction of records	Yes	
2002-002	Ohio Rev. Code Section 5705.41(B)	No	Repeated this year.
2002-003	Ohio Rev. Code Section 5705.41(D)	No	Repeated this year.
2002-004	Grant Compliance – funds spent on unallowable items	Yes	Grant Fund was reimbursed.



**Auditor of State
Betty Montgomery**

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MIAMI EAST LOCAL SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 20, 2003**