

**CLERMONT NORTHEASTERN  
LOCAL SCHOOL DISTRICT**

Financial Statements

Year Ended June 30, 2003

With

Independent Auditors' Report





**Auditor of State  
Betty Montgomery**

Board of Education  
Clermont Northeastern Local School District  
2792 US Route 50  
Batavia, Ohio 45103

We have reviewed the Independent Auditor's Report of the Clermont Northeastern Local School District, Clermont County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

November 3, 2003

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# CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

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

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Clermont Northeastern Local School District:

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

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

As discussed in Note 1, Clermont Northeastern Local School District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the cash basis financial statements referred to above present fairly, in all material respects, the respective financial position-cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clermont Northeastern Local School District as of June 30, 2003, and the respective changes in financial position-cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2003 on our consideration of Clermont Northeastern Local School 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of Clermont Northeastern Local School District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
September 12, 2003



**Clermont Northeastern Local Schools  
2792 US Route 50  
Batavia, Ohio 45103  
Office of the Treasurer**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

This discussion and analysis provides key information from management highlighting the financial performance of the Clermont Northeastern Local School District for the year ended June 30, 2003. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide statements are designed to provide readers with a broad overview of the School District's finances.

The statement of cash balances presents information on all of the School District's cash and investments by activity and by fund type. The statement of receipts, disbursements and changes in cash balances presents information showing how the government's cash balances changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District's business-type activities include food service and preschool.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements and both are presented on the cash basis of accounting.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. The General Fund is the School District's only major fund. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

**Proprietary funds.** The School District utilizes enterprise funds, which report the same functions presented as business-type activities in the government-wide financial statements. The School District has no major enterprise funds. Proprietary funds provide the same information as the government-wide financial statements, only in more detail.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

**Notes to the basic financial statements.** The notes provide additional information related to the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the General Fund budget.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **A. Cash Balances at year-end**

The School District's cash balances at June 30, 2003 were as follows:

Governmental activities	\$	2,569,188
Business-type activities		65,000
Fiduciary		<u>27,133</u>
	\$	<u><u>2,661,321</u></u>

The governmental and business-type cash balances may be used to meet the government's ongoing obligations to citizens and creditors.

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**B. Governmental Activities during fiscal year 2003**

The following table presents a condensed summary of the School District's activities during fiscal year 2003 and the resulting change in cash balances:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Receipts:</b>			
Program receipts:			
Charges for services and sales	\$ 448,390	358,989	807,379
Operating grants and contributions	844,375	105,963	950,338
Capital grants and contributions	<u>1,200</u>	<u>-</u>	<u>1,200</u>
Total program receipts	<u>1,293,965</u>	<u>464,952</u>	<u>1,758,917</u>
General receipts:			
Property taxes	7,199,699	-	7,199,699
Grants and entitlements	6,487,435	-	6,487,435
Investment earnings	78,726	-	78,726
Miscellaneous	<u>268,052</u>	<u>-</u>	<u>268,052</u>
Total general receipts	<u>14,033,912</u>	<u>-</u>	<u>14,033,912</u>
<b>Total receipts</b>	<u>15,327,877</u>	<u>464,952</u>	<u>15,792,829</u>
<b>Disbursements:</b>			
Instruction	7,950,468	-	7,950,468
Support services:			
Pupil	545,520	-	545,520
Instructional staff	480,548	-	480,548
Board of Education	41,258	-	41,258
Administration	1,078,426	-	1,078,426
Fiscal	406,475	-	406,475
Business	154,355	-	154,355
Operation and maintenance of plant	1,486,810	-	1,486,810
Pupil transportation	1,431,170	-	1,431,170
Central	159,796	-	159,796
Non-instructional services	453,123	-	453,123
Principal and interest	994,389	-	994,389
Food service	-	552,786	552,786
Preschool	<u>-</u>	<u>94,437</u>	<u>94,437</u>
<b>Total disbursements</b>	<u>15,182,338</u>	<u>647,223</u>	<u>15,829,561</u>
<b>Transfers</b>	<u>(316,975)</u>	<u>311,205</u>	<u>(5,770)</u>
<b>Change in cash balances</b>	<u>\$ (171,436)</u>	<u>128,934</u>	<u>(42,502)</u>

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Of the total governmental activities receipts of \$15,327,877, \$1,293,965 (8%) is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of those general receipts, 51% (\$7,199,699) comes from property tax levies and 46% (\$6,487,435) is from state and federal funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

This is the first year to report all activities using these classifications. However, in future years, this section will explain the differences between the current and prior receipts and disbursements.

***Governmental Activities***

The following table presents the total disbursements of each of the government's primary services, and the comparative net after deducting the receipts generated by each function. Approximately 9% of the disbursements of the general government programs were recouped in program receipts. Instruction costs were \$7,950,468 but program receipts contributed to fund 10% of those costs. Thus, general revenues of \$7,164,871 were used to support of remainder of the instruction costs.

The School District's governmental activities cash balances decreased by \$171,436 due primarily to a significant increase in health insurance costs and charges for services for special needs children. Health insurance costs for the School District have seen percentage increases in excess of 10% for each of the last three years. The consultant that shops these services for the consortium that the School District belongs to says to expect these same significant increases for the next several years. Charges for special education for special needs children have also sky rocketed. The School District has over 250 of our 1,900 children receiving some sort of specialized services such as speech therapy, physical therapy, occupational therapy, Braille text, or MRDD services.

**Governmental Activities**

	<u>Total</u>	<u>Program</u>	<u>Receipts</u>	
	<u>Disbursements</u>	<u>Receipts</u>	<u>as a % of</u>	<u>Net</u>
			<u>Total Costs</u>	
Instruction	\$ 7,950,468	785,597	10%	7,164,871
Support services	5,784,358	306,692	5%	5,477,666
Non-instructional services	453,123	201,676	45%	251,447
Principal and interest	<u>994,389</u>	<u>-</u>	0%	<u>994,389</u>
<b>Total</b>	\$ <u>15,182,338</u>	<u>1,293,965</u>	<u>9%</u>	<u>13,888,373</u>

***Business-type Activities***

Cash balances of the business-type activities increased by \$128,934 primarily due to operating subsidies provided from the general fund in the form of transfers of to the food service and preschool funds. Net disbursements for all business-type activities were \$182,271.

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The following table presents the total disbursements of each of the School District's business segments and the net cost after deducting the receipts generated by each segment.

<b>Business-type Activities</b>					
		<b>Total</b>	<b>Program</b>	<b>Receipts</b>	
		<b><u>Disbursements</u></b>	<b><u>Receipts</u></b>	<b>as a % of</b>	<b><u>Net</u></b>
				<b><u>Total Costs</u></b>	
Food service	\$	552,786	448,681	81%	104,105
Preschool		<u>94,437</u>	<u>16,271</u>	17%	<u>78,166</u>
<b>Total</b>	<b>\$</b>	<b><u>647,223</u></b>	<b><u>464,952</u></b>	<b><u>72%</u></b>	<b><u>182,271</u></b>

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS**

**Governmental funds**

The School District has one major governmental fund: the General Fund. Receipts of this fund comprise \$13,676,060 (89%) of the total \$15,327,877 governmental funds receipts.

**General Fund.** Fund cash balance at June 30, 2003 was \$805,361, which represents 6% of disbursements for fiscal year 2003. The General Fund cash balance at June 30, 2003 was \$626,573 less than the cash balance at June 30, 2002. The change in the General Fund cash balance is due mainly to the completion of the Fifth Third Bank lease purchase program. The District entered into phase two of a lease purchase program with Fifth Third Bank in 2002. Many of the projects for this program were not completed by June 30, 2002, so the funds for these projects were carried forward in the cash balance until the project was completed in 2003 at which time they were paid out.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. The original budget for a fiscal year is prepared in May each year when the Board adopts Temporary Appropriations to start the fiscal year that starts July 1. The final budget is adopted and approved by the Board at its June Board Meeting each year to close out the year. Each month, when the Board adopts the month end financial reports, it also adopts amended appropriations for activity that has taken place to date. The significant differences between the original budget, which was adopted in May 2002, and the final budget that was adopted in June 2003, after thirteen months of activity, include:

Tax revenue increased beyond projections for two reasons. Although regular income tax proceeds were down, in May of this fiscal year, we had a lucky citizen win a multi-million dollar lottery that resulted in the school receiving a one-time payment of \$72,000. For property tax collections, the second half real estate tax settlement included proceeds from the reappraisal of the property in the School District and these proceeds were more than what was estimated.

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Tuition and fees increased beyond projection to due an increase in the number of open enrollment students that applied and were accepted to attend our School District. The Open Enrollment program allows students of other School District's to apply to attend our School District tuition free. Their home School District is billed for the cost of educating these children through a deduction from their State Foundation payments and we receive this money from the State as a tuition payment.

Intergovernmental Revenue increased beyond projection due to closing activities of the State Legislature. The State of Ohio operates on a two-year budget, called a biennium budget. At the end of the biennium, old cases and activities are closed out as part of the State's closing out and balancing of its own operations. As part of this activity by the State, in May and June, we received two Journal Voucher payments from the State for a reimbursement for losses at Board of Revision hearings that took place in 2000 and a payment for a recalculation by the State for Open Enrollment payments from FY2001.

Local Revenues increased more than anticipated due to a sale of a 5-acre parcel of property that was sold to a local government and an increase in rental and labor fees charged to users of our buildings and grounds. The School District owned a 5-acre parcel of property in the Village of Marathon. Several years ago, the old Marathon School sat on this property. When the Villages of Owensville, Newtonsville, and Marathon were consolidated into the Clermont Northeastern School District in the 1950's, the use of this property was phased out and the building eventually was torn down. Under the guidelines of the Ohio School Facilities Commission, a 5-acre plot is not large enough to build a new school on. Based upon this information, the Board of Education sold this property to Jackson Township. The Township is going to develop the property into a park and athletic fields for use by the citizens of the township and school district. The District charges users for rental of our buildings and grounds. Effective in FY03, we started charging the renter the full cost of labor for cooks and custodians for these events and a comparable rental fee as charged by professional rental halls in this area.

Regular Instruction Expenses increased more than estimated due to a larger than expected advancement in educational attainment of staff which moves their salaries on the negotiated pay scale. In addition, a 3% raise was granted to all staff members. The State of Ohio has changed the requirements for licensing of teachers within the state. Each teacher now has a specified period from graduation with a bachelors degree to obtain additional education and earn a masters degree. The pay scale for your typical school district pays teachers based upon years of experience and educational levels attained. This State requirement will result in additional payroll expenses for most School Districts until College courses are revamped and students graduate with a Masters degree before entering the work force.

Operation and Maintenance of Plant expenses increased more than original projection due to early preparation for our School District wide reconfiguration. As part of balancing the District's operational budget to start FY04, it was decided to consolidate our buildings of operation from five buildings of operation to three and a half. This consolidation required some remodeling of facilities and part of this remodeling was performed in June just before end of year and the associated expenses appeared in the FY03 statements.

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Debt Repayment was not budgeted in the original budget adopted in May 2002. At that time, the repayment schedule for the Fifth Third lease purchase program was not finalized, as the project had not been completed so it was not budgeted. As soon as the amount was known, the Board amended its budget to accommodate this repayment.

Transfers out increased more than originally budgeted. The School District decided to fund the first start up funds for programs that are supported by the General Fund in June of the prior year. With the school being required to offer more and more summer activities and remediation classes for students, Administration asked the Board to fund these activities to start the year rather than operate as a deficit until the Board met again after the next fiscal year had started. The funds that are supported by the General Fund and that were advance funded include: Pre-School, EMIS, Termination Benefits, Food Service, and State and Federal Grant Programs.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The School District's financial statements are prepared on the cash basis of accounting and thus, capital assets acquired by the School District are recorded as disbursements and have not been capitalized.

**Debt.** The School District did not issue any debt during the year ended June 30, 2003. However, the School District retired \$390,000 of general obligation bonds and has \$4,230,000 outstanding at June 30, 2003. In addition, the School District paid principal of \$370,572 on its HB264 Lease-Purchase Agreement which has an outstanding balance of \$1,947,689 at June 30, 2003. See Note 4 to the financial statements.

### **ECONOMIC FACTORS**

A challenge facing the School District is the future of state funds. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including a change in the school districts that are used as the basis for determining the base cost support amount and fully funding parity aid no later than the beginning of fiscal year 2004. The State of Ohio asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. The Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator.

The mediator issued his final report indicating that the conference was unable to produce a settlement so the case was reconsidered by the Court. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. 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.

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The School District, like all other taxing entities in the State of Ohio, faces the uncertainty of the economy. The School District's operating revenue is composed primarily of property taxes and a local income tax. With a weak economy, many of the School District's citizens have either lost their jobs and are unemployed or have had to take lesser paying jobs, thus reducing the School District's Income Tax collections. Further, as household budgets tighten, the number and amount of property tax delinquencies increase thus decreasing property tax revenue for the School District.

As for expenses, the School District faces continued significant increases in the cost of health care for its employees. The School District also faces an increasing number of children requiring special education and services and these charges also are increasing by double digits each year. The School District has faced these challenges the last few years by making drastic cuts to its budget and services offered but will soon reach a point where no further cuts can be made and expects to have to go to the electorate and ask for more taxes to be levied to finance operations of the School District.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Clermont Northeastern Local School District, 2792 US Route 50, Batavia, Ohio 45103.



# CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

## Statement of Cash Balances

June 30, 2003

### CASH BALANCES BY ACTIVITY:

Governmental activities	\$ 2,569,188
Business-type activities	65,000
Fiduciary	<u>27,133</u>
Total	\$ <u><u>2,661,321</u></u>

### CASH BALANCES BY FUND TYPE:

General Fund	\$ 805,361
Other Governmental Funds:	
Special Revenue Funds	1,009,976
Debt Service Fund	730,875
Capital Projects Funds	<u>22,976</u>
	<u>1,763,827</u>
Non-major Enterprise Funds	65,000
Fiduciary Funds:	
Private-Purpose Trust Funds	11,916
Agency Funds	<u>15,217</u>
Total	\$ <u><u>2,661,321</u></u>

The notes to the financial statements are an integral part of this statement.

# CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

## Statement of Receipts, Disbursements and Changes in Cash Balances

Year Ended June 30, 2003

	Disbursements	Program Receipts		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 5,799,187	-	135,193	1,200
Special education	1,928,914	-	250,953	-
Adult/continuing	222,367	358,131	40,120	-
Support services:				
Pupil	545,520	-	221,856	-
Instructional staff	480,548	-	40,312	-
Board of Education	41,258	-	-	-
Administration	1,078,426	-	-	-
Fiscal	406,475	-	-	-
Business	154,355	-	-	-
Operation and maintenance of plant	1,486,810	-	-	-
Pupil transportation	1,431,170	-	-	-
Central	159,796	-	44,524	-
Non-instructional services:				
Extracurricular activities	309,347	90,259	-	-
Community service	143,776	-	111,417	-
Debt service:				
Principal and interest	994,389	-	-	-
<b>Total Governmental Activities</b>	<u>15,182,338</u>	<u>448,390</u>	<u>844,375</u>	<u>1,200</u>
<b>Business-Type Activities:</b>				
Food Service	552,786	342,718	105,963	-
Preschool	94,437	16,271	-	-
<b>Total Business-Type Activities</b>	<u>647,223</u>	<u>358,989</u>	<u>105,963</u>	<u>-</u>
	\$ <u>15,829,561</u>	<u>807,379</u>	<u>950,338</u>	<u>1,200</u>

### General Receipts:

Property taxes, levied for general purposes  
 Property taxes, levied for debt services  
 Grants and entitlements not restricted to specific programs  
 Investment earnings  
 Miscellaneous  
 Transfers  
 Total general receipts and transfers

### Change in cash balances

Cash balances, beginning of year  
 Cash balances, end of year

The notes to the financial statements are an integral part of this statement.

Net (Disbursements) Receipts and  
Changes in Cash Balances

	Governmental Activities	Business-Type Activities	Total
\$	(5,662,794)	-	(5,662,794)
	(1,677,961)	-	(1,677,961)
	175,884	-	175,884
	(323,664)	-	(323,664)
	(440,236)	-	(440,236)
	(41,258)	-	(41,258)
	(1,078,426)	-	(1,078,426)
	(406,475)	-	(406,475)
	(154,355)	-	(154,355)
	(1,486,810)	-	(1,486,810)
	(1,431,170)	-	(1,431,170)
	(115,272)	-	(115,272)
	-	-	-
	(219,088)	-	(219,088)
	(32,359)	-	(32,359)
	(994,389)	-	(994,389)
	(13,888,373)	-	(13,888,373)
	-	(104,105)	(104,105)
	-	(78,166)	(78,166)
	-	(182,271)	(182,271)
	(13,888,373)	(182,271)	(14,070,644)
	6,665,413	-	6,665,413
	534,286	-	534,286
	6,487,435	-	6,487,435
	78,726	-	78,726
	268,052	-	268,052
	(316,975)	311,205	(5,770)
	13,716,937	311,205	14,028,142
	(171,436)	128,934	(42,502)
	2,740,624	(63,934)	2,676,690
\$	2,569,188	65,000	2,634,188

# CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

## Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances

### Governmental Funds

Year Ended June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>			
Taxes	\$ 6,665,413	534,286	7,199,699
Tuition and fees	358,131	-	358,131
Interest	77,683	1,043	78,726
Intergovernmental	6,425,864	907,146	7,333,010
Other local revenues	148,969	209,342	358,311
<b>Total cash receipts</b>	<u>13,676,060</u>	<u>1,651,817</u>	<u>15,327,877</u>
<b>Disbursements:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	5,765,829	33,358	5,799,187
Special education	1,436,671	492,243	1,928,914
Other instruction	218,165	4,202	222,367
<b>Support services:</b>			
Pupil	537,438	71,272	608,710
Instructional staff	322,031	95,327	417,358
Board of Education	41,258	-	41,258
Administration	1,026,053	52,373	1,078,426
Fiscal	397,476	8,999	406,475
Business	154,355	-	154,355
Operation and maintenance of plant	1,484,929	1,881	1,486,810
Pupil transportation	1,431,170	-	1,431,170
Central	-	159,796	159,796
<b>Non-instructional services:</b>			
Extracurricular activities	5,593	303,754	309,347
Community service	-	143,776	143,776
<b>Debt Service:</b>			
Principal	370,572	390,000	760,572
Interest and fiscal charges	111,303	122,514	233,817
<b>Total disbursements</b>	<u>13,302,843</u>	<u>1,879,495</u>	<u>15,182,338</u>
Excess of receipts over (under) disbursements	<u>373,217</u>	<u>(227,678)</u>	<u>145,539</u>
<b>Other financing sources (uses):</b>			
Transfers in	-	714,176	714,176
Transfers out	(999,790)	(31,361)	(1,031,151)
<b>Total other financing sources (uses):</b>	<u>(999,790)</u>	<u>682,815</u>	<u>(316,975)</u>
Excess of receipts and other sources over (under) disbursements and other (uses)	(626,573)	455,137	(171,436)
Fund cash balance, beginning of year	<u>1,431,934</u>	<u>1,308,690</u>	<u>2,740,624</u>
Fund cash balance, end of year	\$ <u>805,361</u>	<u>1,763,827</u>	<u>2,569,188</u>

The notes to the financial statements are an integral part of this statement.

# CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

## Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances

### Proprietary Funds

Year Ended June 30, 2003

	Non-major Enterprise Funds
<b>Operating receipts:</b>	
Charges for services	\$ <u>358,989</u>
<b>Total operating receipts</b>	<u>358,989</u>
<b>Operating disbursements:</b>	
Salaries and wages	148,225
Fringe benefits	61,887
Contractual services	130,379
Materials and supplies	303,337
Other expenses	<u>3,395</u>
<b>Total operating disbursements</b>	<u>647,223</u>
Deficit of operating receipts under operating disbursements	(288,234)
<b>Nonoperating receipts:</b>	
State and federal grants in aid	<u>105,963</u>
<b>Total nonoperating receipts</b>	<u>105,963</u>
Deficit of receipts under disbursements before transfers	(182,271)
Transfers in	<u>311,205</u>
Net excess of receipts over disbursements	128,934
Beginning fund cash balance	<u>(63,934)</u>
Ending fund cash balance	\$ <u><u>65,000</u></u>

The notes to the financial statements are an integral part of this statement.

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT**

Statement of Cash Additions, Cash Deductions and Changes in Fund Cash Balances

Fiduciary Funds

Year Ended June 30, 2003

		<u>Private- Purpose Trust Funds</u>
<b>Cash additions:</b>		
Contributions	\$	<u>4,256</u>
Total cash additions		<u>4,256</u>
<b>Cash deductions:</b>		
Community gifts, awards and scholarships		<u>2,180</u>
Total cash deductions		<u>2,180</u>
Change in fund cash balance		2,076
Fund cash balance, beginning of year		<u>9,840</u>
Fund cash balance, end of year	\$	<u><u>11,916</u></u>

The notes to the financial statements are an integral part of this statement.

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Clermont Northeastern 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 to approximately 1,900 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1958 through the consolidation of existing school districts. The School District serves an area of approximately 84 square miles, is located in Clermont County, and includes all of the Villages of Owensville, Newtonsville, Marathon, Perintown, and Monterey.

Included within the reporting entity is a parochial school located within the School District boundaries. St. Louis Elementary is operated through the Cincinnati Catholic Archdiocese but current State legislation provides funding to this parochial school. This money is received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity related to this funding is reflected in a special revenue fund for financial reporting purposes.

**Basis of Accounting**

Although required by the Ohio Administrative Code to prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America, the School District has prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

**Basis Of Presentation**

***Government-wide Financial Statements*** The statement of cash balances and the statement of receipts, disbursements and changes in cash balances display information about the School District as a whole. These statements include the financials activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statement of receipts, disbursements, and changes in cash balances present a comparison between direct disbursements and program receipts for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program receipts include

charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general receipts of the School District.

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

### **Fund Accounting**

The School District maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. The transactions of each fund are reflected in a self-balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations.

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.

#### *Governmental Fund Types:*

Governmental funds are those through which most governmental functions of the School District are financed.

*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 trusts 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).



### *Proprietary Fund Types:*

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

*Enterprise Fund* - The enterprise fund is 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 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.

### *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 private-purpose trust and agency funds.

### **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 cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

### *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 Clermont County Budget Commission for rate determination.

### *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 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 year. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances were available for appropriation. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The budgeted receipts in the financial statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

*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 must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level 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 appropriate resolutions, 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 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. The budget figures that appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

*Encumbrances:*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

*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.

**Cash and Cash Equivalents**

To improve cash management, cash received by the School District is pooled. Individual fund integrity is maintained throughout the School District's records. Following Ohio statutes, the Board of Education has by resolution, specified the funds to receive an allocation of interest earnings.

During fiscal year 2003, investments were limited to STAROhio, U.S. Agency Securities, and certificates of deposit. Investments are reported at cost.

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

### **Capital Assets**

Property, plant, and equipment acquired or constructed by the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

### **Compensated Absences**

Accumulated unpaid vacation leave, sick leave, and personal leave are not accrued under the cash basis of accounting as described in Note 1. All leave will either be utilized by time off from work or, within certain limitations, be paid to employees.

### **Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by a 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; and
6. The State Treasurer's investment pool (STAROhio).

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

Deposits: At year-end, the carrying amount of the School District's deposits was \$1,778,628 and the bank balance was \$2,264,093. Of the bank balance, \$171,563 was covered by federal depository insurance and \$2,092,530 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging financial institution's trust department, but not in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at 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 that 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. The School District's investments in STAROhio and U.S. Money Market Funds are unclassified because they are not evidenced by securities that exist in physical or book entry form.

		<u>Category 2</u>	<u>Cost</u>
STAR Ohio	\$	-	27,772
U.S. Money Market Fund		-	29,921
U.S. Agency securities		<u>825,000</u>	<u>825,000</u>
GASB Statement No. 3	\$	<u>825,000</u>	<u>882,693</u>

### 3. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 1998. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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. Tangible personal property taxes paid 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.

The School District receives property taxes from Clermont 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 assessed values upon which fiscal year 2003 taxes were collected are:

	<u>2002 Second-Half Collections</u>		<u>2003 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 200,534,630	88.76%	218,563,820	89.04%
Public Utility	8,398,520	3.72%	8,341,310	3.40%
Tangible Personal Property	<u>16,985,335</u>	7.52%	<u>18,566,416</u>	7.56%
Total Assessed Value	\$ <u>225,918,485</u>	100.00%	<u>245,471,546</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$36.00		\$36.00

#### 4. DEBT

*Capital Improvement Bonds Payable* – In 1992, the School District issued \$6,045,000 in voted general obligations bonds for the purpose of classroom additions and improvements to the existing three school buildings. During the prior fiscal year, the School District issued \$4,960,000 of general obligation bonds for the purpose of a current refunding of the 1992 bonds. The outstanding bonds of \$4,230,000 as of June 30, 2003 bear interest at rates ranging from 2.15% to 3.95% with final payment on December 1, 2014.

*House Bill 264, Lease-Purchase Agreement* – In June 2000, the School District entered into a lease-purchase agreement for building renovations. During the current year, the School District borrowed additional funds under the lease-purchase agreement for additional renovations and equipment purchases. The outstanding balance as of June 30, 2003 is \$1,947,689. The lease-purchase agreement calls for monthly payments of \$37,067 through June 2005 and monthly payments of \$28,646 from June 2005 to May 2009.

Principal and interest requirements to retire general obligation bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Ending June 30,</u>				
2004	\$	400,000	113,625	513,625
2005		405,000	103,456	508,456
2006		420,000	91,483	511,483
2007		430,000	77,982	507,982
2008		445,000	62,989	507,989
2009-2013		1,812,948	736,989	2,549,937
2014-2015		<u>317,052</u>	<u>717,948</u>	<u>1,035,000</u>
Total	\$	<u>4,230,000</u>	<u>1,904,472</u>	<u>6,134,472</u>

Future principal and interest payments for the lease-purchase agreement are as follows:

Fiscal Year Ending June 30,		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$	355,462	89,346	444,808
2005		373,192	71,616	444,808
2006		288,707	55,049	343,756
2007		303,660	40,096	343,756
2008		319,386	24,370	343,756
2009		<u>307,282</u>	<u>7,829</u>	<u>315,111</u>
Total	\$	<u>1,947,689</u>	<u>288,306</u>	<u>2,235,995</u>

## 5. RISK MANAGEMENT

The School District maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability insurance. There was no decline in the level of coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This 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. Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The School District also participates in the Clermont County Health Trust in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

## **6. DEFINED BENEFIT PENSION PLANS**

### **School Employees Retirement System**

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

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the year ended June 30, 2003, were approximately \$172,000.

### **State Teachers Retirement System**

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

Plan members are required to contribute 9.3% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the year ended June 30, 2003 were approximately \$808,000.

### **Social Security System**

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, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.



## 7. REQUIRED SET-ASIDES

The School District is required by State Statute to annually set aside in the general fund an amount based on the statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The following cash basis information describes the change in the year-end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2002	\$	(303,831)	-
Current year set-aside requirement		265,431	265,431
Less qualifying disbursements		<u>(487,144)</u>	<u>(566,688)</u>
Total		<u>(525,544)</u>	<u>(301,257)</u>
Balance carried to FY2004		<u>(525,544)</u>	<u>-</u>

Since the School District had qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, this extra amount may be used to reduce the set aside requirement of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirement for future years.

## 8. SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement.

On December 11, 2002 the Supreme Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance.

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.

## CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Taxes	6,284,451	6,665,413	6,665,413	-
Tuition and fees	279,951	358,131	358,131	-
Interest	75,229	77,683	77,683	-
Intergovernmental	6,205,168	6,425,864	6,425,864	-
Other local revenues	43,000	148,969	148,969	-
<b>Total revenues</b>	<u>12,887,799</u>	<u>13,676,060</u>	<u>13,676,060</u>	-
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	5,481,539	5,812,128	5,812,128	-
Special education	1,394,064	1,436,671	1,436,671	-
Other instruction	238,736	218,165	218,165	-
<b>Support services:</b>				
Pupil	541,197	537,438	537,438	-
Instructional staff	301,586	322,031	322,031	-
Board of Education	50,475	44,275	44,275	-
Administration	1,030,762	1,037,336	1,037,336	-
Fiscal	391,632	397,803	397,803	-
Business	134,784	154,355	154,355	-
Operation and maintenance of plant	1,457,559	1,503,287	1,503,287	-
Pupil transportation	1,507,353	1,431,342	1,431,342	-
Central	-	-	-	-
<b>Non-instructional services:</b>				
Extracurricular activities	5,501	5,593	5,593	-
Debt repayment	-	481,875	481,875	-
<b>Total expenditures</b>	<u>12,535,188</u>	<u>13,382,299</u>	<u>13,382,299</u>	-
Excess of revenues over expenditures	352,611	293,761	293,761	-
<b>Other financing sources (uses):</b>				
Transfers out	(388,758)	(999,790)	(999,790)	-
<b>Total other financing sources (uses):</b>	<u>(388,758)</u>	<u>(999,790)</u>	<u>(999,790)</u>	-
Excess of revenues and other sources over expenditures and other (uses)	(36,147)	(706,029)	(706,029)	-
Fund balance, beginning of year	1,413,725	1,413,725	1,413,725	
Prior year encumbrances appropriated	18,209	18,209	18,209	
<b>Fund balance, end of year</b>	<u>1,395,787</u>	<u>725,905</u>	<u>725,905</u>	

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
(Passed through Ohio Department of Education)				
Nutrition Cluster:				
Food Distribution Program	03-PU	10.550	\$ 20,586	20,586
National School Lunch Program	04-PU	10.555	<u>101,190</u>	<u>101,190</u>
Total U.S. Department of Agriculture			<u>121,776</u>	<u>121,776</u>
 <u>U.S. Department of Education:</u>				
(Passed through Ohio Department of Education)				
Special Education Grants to States (IDEA Part B)	6B-SF	84.027	203,169	185,657
Grants to Local Education Agencies (ESEA Title I)	C1-S1	84.010	238,446	258,193
Eisenhower Professional Development Grant	MS-S1	84.281	-	6,771
Innovative Education Program Strategy - Title VI	C2-S1	84.298	12,507	31,557
Class Size Reduction	TR-S1	84.340	97,443	58,338
Safe and Drug Free Schools	DR-S1	84.186	11,252	8,704
Technology Literacy Challenge Fund Grant	CR-S1	84.318	6,780	5,644
Goals 2000	G2-SR	84.276	-	5,885
ATIP Grant	AT-S3	84.352	<u>4,697</u>	<u>4,697</u>
Total U.S. Department of Education			<u>574,294</u>	<u>565,446</u>
Total Federal Awards			\$ <u>696,070</u>	<u>687,222</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed.

**NOTE C - MATCHING REQUIREMENTS**

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

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

To the Board of Education  
Clermont Northeastern Local School District:

We have audited the financial statements of Clermont Northeastern Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated September 12, 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. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, the School District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Compliance

As part of obtaining reasonable assurance about whether Clermont Northeastern Local School 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 is presented in the accompanying schedule of findings and questioned costs as items 2003-1 to 2003-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clermont Northeastern Local School 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 operations that we consider to be material weaknesses.

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

*Clark, Schaefer, Haskitt & Co.*

Cincinnati, Ohio  
September 12, 2003

# Clark, Schaefer, Hackett & Co.

CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Clermont Northeastern Local School District:

### Compliance

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

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

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

### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Clark, Schaefer, Harbitt & Co.*

Cincinnati, Ohio  
September 12, 2003



CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2003

Section I - Summary of Auditors' Results

Financial Statements

Type of report issued on financial statements:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	yes

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	none
Identification of major programs:	
<i>CFDA 84.010 Title I</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

## **Section II - Financial Statement Findings**

2003-1 Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. The School District prepared its financial statements for the year ended June 30, 2003 on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

2003-2 Ohio Revised Code Section 5705.41 (D) requires that no expenditures of money be made unless there is certificate of the fiscal officer that the amount required 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 encumbrances. During our testing of disbursements, we noted eight instances in which the invoice date preceded the purchase order date. This would indicate the obligation was incurred prior to obtaining the fiscal officer's certificate contrary to this section.

2003-3 Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund may not exceed the amounts certified by the budget commission as being available for appropriation. We tested compliance with this requirement at both December 31, 2002 and June 30, 2003. Appropriations exceeded certified resources in a number of special revenue funds at December 31, 2002.

## **Section III - Federal Award Findings and Questioned Costs**

None.

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT**

Schedule of Prior Audit Findings

Year Ended June 30, 2003

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance with requirements that could have a direct and material effect on a major federal program were reported in the prior year.





**Auditor of State  
Betty Montgomery**

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**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT**

**CLERMONT 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 13, 2003**