

MARIEMONT CITY SCHOOL DISTRICT

Basic Financial Statements

Year Ended June 30, 2003

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
Mariemont City School District

We have reviewed the Independent Auditor's Report of the Mariemont City School District, Hamilton 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 Mariemont City School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 7, 2004

This Page is Intentionally Left Blank.

MARIEMONT CITY SCHOOL DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12 - 13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14 - 15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16 - 17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget-Actual (Non-GAAP Budgetary Basis) – General Fund	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Net Assets – Fiduciary Funds	22
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust	23
Notes to Basic Financial Statements	24 – 41
Additional Information:	
Schedule of Prior Audit Findings	42
Schedule of Expenditures of Federal Awards	43
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	45 – 46
Schedule of Findings and Questioned Costs	47

This Page is Intentionally Left Blank.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Mariemont City School District:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mariemont City School District (the 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 an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note U to the basic financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*; and GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2004 on our consideration of the 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 basic financial statements of 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 of the School District. 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.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 5, 2004

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

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

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for 2003 are as follows:

- The assets of the District exceeded its liabilities at year-end by \$8.9 million. In total, net assets increased by \$1.5 million.
- The District had \$16.2 million in expenses related to governmental activities; only \$.8 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$16.9 million, made up primarily of property taxes and State Foundation payments, were adequate to provide for these programs.
- The General Fund balance increased by \$1.3 million from \$4.9 million at June 30, 2002 to \$6.2 million at June 30, 2003.

Overview of the Financial Statements

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

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

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include *all assets and liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service operation is reported as business activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2003:

Table 1 Net Assets			
	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Assets			
Current	\$16,955,377	\$22,170	\$16,977,547
Capital assets	<u>9,090,656</u>	<u>63,015</u>	<u>9,153,671</u>
Total Assets	26,046,033	85,185	26,131,218
Liabilities			
Long-term liabilities	8,609,815	1,271	8,611,086
Other Liabilities	<u>8,590,634</u>	<u>36,690</u>	<u>8,627,324</u>
Total Liabilities	17,200,449	37,961	17,238,410
Net Assets			
Invested in capital assets, net of debt	1,422,374	63,015	1,485,389
Restricted	1,560,765	0	1,560,765
Unrestricted	<u>5,862,445</u>	<u>(15,791)</u>	<u>5,846,654</u>
Total Net Assets	<u>\$8,845,584</u>	<u>\$47,224</u>	<u>\$8,892,808</u>

A significant portion of the District's net assets (16%) reflects its investment in capital assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the District's net assets (17%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Because this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not possible. In future years, this section will explain the differences between the current and prior year assets, liabilities, and changes in net assets.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

Table 2 shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available.

Table 2
Changes in Net Assets

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Revenues			
Program Revenues:			
Charges for services & sales	\$434,271	\$351,008	\$785,279
Operating grants	302,657	45,499	348,156
Capital grants	31,174	0	31,174
General Revenues:			
Property taxes	11,996,917	0	11,996,917
Grants and entitlements	4,672,239	0	4,672,239
Earnings on investments	110,508	0	110,508
Other revenues	182,156	0	182,156
Transfers	(65,000)	65,000	0
Total Revenues	17,664,922	461,507	18,126,429
Program expenses:			
Instruction	9,014,473	0	9,014,473
Support services:			
Pupil and instructional staff	2,052,806	0	2,052,806
Administration	1,742,497	0	1,742,497
Operations & maintenance	1,887,298	0	1,887,298
Pupil transportation	504,195	0	504,195
Central	94,436	0	94,436
Community services	1,743	0	1,743
Non-instructional services	3,000	0	3,000
Extracurricular activities	481,703	0	481,703
Interest and fiscal charges	402,519	0	402,519
Food service	0	291,181	291,181
Extended time	0	168,256	168,256
Adult education	0	5,809	5,809
Total Expenses	16,184,670	465,246	16,649,916
Increase (Decrease) in Net Assets	\$1,480,252	(\$3,739)	\$1,476,513

MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised ninety-four percent (94%) of the District's revenues for governmental activities.

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

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes were sixty-eight percent (68%) of revenue for governmental activities in fiscal year 2003.

Instruction comprises fifty-six percent (56%) of governmental program expenses. Support services expenses were thirty-nine percent (39%) of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Changes in Net Assets

	Total Cost of Services 2003	Net Cost of Services 2003
	<u>2003</u>	<u>2003</u>
Instruction	9,014,473	\$8,617,969
Support services:		
Pupil and instructional staff	2,052,806	1,869,547
Administration	1,742,497	1,742,497
Operations & maintenance	1,887,298	1,866,216
Pupil transportation	504,195	499,073
Central	94,436	94,436
Community services	1,743	224
Non-instructional services	3,000	3,000
Extracurricular activities	481,703	321,087
Interest and fiscal charges	402,519	402,519
Total Expenses	<u>\$16,184,670</u>	<u>\$15,416,568</u>

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

Business-Type Activities

The District's business-type activities are the food service operation, extended time and adult education. These programs had revenues of \$.4 million and expenses of \$.5 million for fiscal year 2003. Business activities receive no support from tax revenues.

The District's Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17.7 million and expenditures of \$18.1 million. The net change in fund balance for the year was \$.5 million, only five percent (5%) decrease.

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget twice, however neither were significant. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$15.4 million, above original budget estimates of \$15.1 million. Of this \$.3 million difference, most was due to conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$.1 million below the final budget amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$9.1 million invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2003 balances compared to fiscal 2002:

MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)

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

	Governmental Activities		Business-Type Activities		Total	
	2002	2003	2002	2003	2002	2003
Land	\$919,079	\$919,079	\$0	\$0	\$919,079	\$919,079
Construction in progress	4,345,370	6,333,924			4,345,370	6,333,924
Buildings & improvements	695,403	556,117	0	0	695,403	556,117
Furniture & equipment	1,405,316	1,112,021	70,578	63,015	1,475,894	1,175,036
Vehicles	143,588	169,515	0	0	143,588	169,515
Total Net Assets	\$7,508,756	\$9,090,656	\$70,578	\$63,015	\$7,579,334	\$9,153,671

The increase in capital assets is due to \$2,123,124 in acquisitions, offset by the recognition of \$548,787 in depreciation expense. This District continues its ongoing commitment to maintaining and improving its capital assets. Additional information on capital assets can be found in Note G to the notes to the basic financial statements.

Debt

At June 30, 2003, the District had \$7,560,977 in bonds outstanding, \$245,000 due within one year. Table 5 summarizes bonds outstanding.

Table 5
 Outstanding Debt, at June 30

	Governmental Activities 2002	Governmental Activities 2003
General Obligation Bonds:		
2001 Permanent Improvement	\$7,790,722	\$7,560,722
Total General Obligation Bonds	\$7,790,722	\$7,560,722

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS – (continued)
For the Fiscal Year Ended June 30, 2003
(Unaudited)**

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

At June 30, 2003, the District's overall legal debt margin was \$17,608,469 with an unvoted debt margin of \$279,658. For more information on debt, refer to Note J in the notes to the basic financial statements.

For the Future

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns.

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

In addition, the District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the challenges of the future. The District passed a 5.5 mill operating levy in November of 2003. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

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

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Equity in pooled cash and investments	\$5,786,069	\$12,662	\$5,798,731
Receivables:			
Taxes - current	10,644,262	0	10,644,262
Taxes - delinquent	367,926	0	367,926
Accounts	2,601	163	2,764
Intergovernmental - federal	14,519	0	14,519
Materials and supplies inventory	0	9,345	9,345
Nondepreciable capital assets	7,253,003	0	7,253,003
Depreciable capital assets, net	1,837,653	63,015	1,900,668
Restricted assets:			
Equity in pooled cash	140,000	0	140,000
TOTAL ASSETS	26,046,033	85,185	26,131,218
LIABILITIES:			
Accounts payable	\$113,562	\$403	\$113,965
Accrued wages and benefits	1,341,156	23,089	1,364,245
Deferred revenue	6,738,562	0	6,738,562
Intergovernmental payable	365,294	13,198	378,492
Accrued interest payable	32,060	0	32,060
Long-term liabilities			
Due within one year	377,652	1,271	378,923
Due within more than one year	8,232,163	0	8,232,163
TOTAL LIABILITIES	17,200,449	37,961	17,238,410
NET ASSETS:			
Invested in capital assets, net of related debt	1,422,374	63,015	1,485,389
Restricted:			
Budget stabilization	140,000	0	140,000
Special revenue	71,377	0	71,377
Capital projects	1,349,388	0	1,349,388
Unrestricted	5,862,445	(15,791)	5,846,654
TOTAL NET ASSETS	\$8,845,584	\$47,224	\$8,892,808

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$7,925,079	\$140,200	\$59,237	\$0
Special	1,025,327	110,854	86,213	0
Other	64,067	0	0	0
Support services:				
Pupil	964,973	0	142,565	0
Instructional staff	1,087,833	0	14,642	26,052
General administration	7,657	0	0	0
School administration	1,295,411	0	0	0
Fiscal	417,261	0	0	0
Business	22,168	0	0	0
Operations & maintenance	1,887,298	21,082	0	0
Pupil transportation	504,195	0	0	5,122
Central	94,436	0	0	0
Community services	1,743	1,519	0	0
Non-instructional services	3,000	0	0	0
Extracurricular activities	481,703	160,616	0	0
Debt service:				
Interest and fiscal charges	402,519	0	0	0
Total governmental activities	<u>16,184,670</u>	<u>434,271</u>	<u>302,657</u>	<u>31,174</u>
Business-Type activities:				
Food service	291,181	197,891	45,499	0
Extended time	168,256	146,799	0	0
Adult Education	5,809	6,318	0	0
Total Business-Type activities	<u>465,246</u>	<u>351,008</u>	<u>45,499</u>	<u>0</u>
Totals	<u>\$16,649,916</u>	<u>\$785,279</u>	<u>\$348,156</u>	<u>\$31,174</u>

General revenues:
 Property taxes levied for:
 General purposes
 Debt service
 Grants and Entitlements not Restricted to Specific Programs
 Earnings on Investments
 Other revenues
 Transfers
 Total general revenues and transfers

Change in net assets

Net assets beginning of year

Net assets end of year

See accompanying notes.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$7,725,642)	\$0	(\$7,725,642)
(828,260)	0	(828,260)
(64,067)	0	(64,067)
(822,408)	0	(822,408)
(1,047,139)	0	(1,047,139)
(7,657)	0	(7,657)
(1,295,411)	0	(1,295,411)
(417,261)	0	(417,261)
(22,168)	0	(22,168)
(1,866,216)	0	(1,866,216)
(499,073)	0	(499,073)
(94,436)	0	(94,436)
(224)	0	(224)
(3,000)	0	(3,000)
(321,087)	0	(321,087)
(402,519)	0	(402,519)
<u>(15,416,568)</u>	<u>0</u>	<u>(15,416,568)</u>
0	(47,791)	(47,791)
0	(21,457)	(21,457)
0	509	509
<u>0</u>	<u>(68,739)</u>	<u>(68,739)</u>
<u>(\$15,416,568)</u>	<u>(\$68,739)</u>	<u>(\$15,485,307)</u>
11,310,089	0	11,310,089
686,828	0	686,828
4,672,239	0	4,672,239
110,508	0	110,508
182,156	0	182,156
(65,000)	65,000	0
<u>16,896,820</u>	<u>65,000</u>	<u>16,961,820</u>
1,480,252	(3,739)	1,476,513
7,365,332	50,963	7,416,295
<u>\$8,845,584</u>	<u>\$47,224</u>	<u>\$8,892,808</u>

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General Fund	Building Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Assets:				
Equity in pooled cash and investments	\$4,118,728	\$1,208,721	\$458,620	\$5,786,069
Receivables:				
Taxes - current	10,047,000	0	597,262	10,644,262
Taxes - delinquent	344,851	0	23,075	367,926
Accounts	2,393	0	208	2,601
Intergovernmental - federal	0	0	14,519	14,519
Interfund loans	14,519	0	0	14,519
Restricted assets:				
Equity in pooled cash	140,000	0	0	140,000
TOTAL ASSETS	\$14,667,491	\$1,208,721	\$1,093,684	\$16,969,896
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$68,671	\$39,520	\$5,243	\$113,434
Accrued wages and benefits	1,341,156	0	0	1,341,156
Interfund loans payable	0	0	14,519	14,519
Deferred revenue	6,717,551	0	403,456	7,121,007
Intergovernmental payable	221,051	0	0	221,051
Compensated absences payable	53,065	0	0	53,065
Total liabilities	8,401,494	39,520	423,218	8,864,232
Fund Balances				
Reserved-				
Reserved for property tax advances	3,675,000	0	231,400	3,906,400
Reserved for encumbrances	0	219,524	19,085	238,609
Reserved for budget stabilization	140,000	0	0	140,000
Unreserved, Undesignated, Reported in				
Special Revenue funds	0	0	66,811	66,811
Debt Service fund	0	0	172,983	172,983
Capital projects funds	0	949,677	180,187	1,129,864
General fund	2,450,997	0	0	2,450,997
Total fund balances	6,265,997	1,169,201	670,466	8,105,664
TOTAL LIABILITIES AND FUND BALANCES	\$14,667,491	\$1,208,721	\$1,093,684	\$16,969,896

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003**

Total Governmental Fund Balance \$8,105,664

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

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

Land and improvements	919,079	
Construction in progress	6,333,924	
Buildings and improvements	5,754,002	
Furniture and equipment	4,229,240	
Vehicles	586,964	
Accumulated depreciation	<u>(8,732,553)</u>	
Total Capital Assets		9,090,656

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

Taxes - delinquent receivables	367,926	
Intergovernmental receivables	<u>14,519</u>	
Total		382,445

In the statement of net assets, interest is accrued, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. (32,060)

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

General obligation notes	7,560,722	
Capital lease payable	107,560	
Intergovernmental payable	144,243	
Compensated absences	<u>888,596</u>	
Total		<u>(8,701,121)</u>

Net Assets of Governmental Activities \$8,845,584

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund	Building Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes	\$11,296,791	\$0	\$685,951	\$11,982,742
Tuition	125,631	0	0	125,631
Earnings on investments	78,686	30,566	1,256	110,508
Extracurricular activities	0	0	172,958	172,958
Classroom materials and fees	128,467	0	243	128,710
Other local revenues	29,821	34,600	124,707	189,128
Intergovernmental - state and local	4,596,015	0	117,885	4,713,900
Intergovernmental - federal	0	0	277,651	277,651
Total revenues	16,255,411	65,166	1,380,651	17,701,228
Expenditures:				
Current:				
Instruction:				
Regular	7,494,595	0	72,082	7,566,677
Special	918,951	0	102,824	1,021,775
Other	64,067	0	0	64,067
Support services:				
Pupil	801,575	2,000	160,069	963,644
Instructional staff	832,920	0	77,941	910,861
General administration	7,657	0	0	7,657
School administration	1,268,097	0	0	1,268,097
Fiscal	407,201	0	7,982	415,183
Business	24,250	0	0	24,250
Operations & maintenance	1,863,956	56	0	1,864,012
Pupil transportation	527,879	0	0	527,879
Central	94,010	0	0	94,010
Non-instructional services	0	0	3,000	3,000
Extracurricular activities	286,017	0	192,993	479,010
Capital Outlay	0	2,030,964	0	2,030,964
Debt service:				
Principal retirement	225,541	0	230,000	455,541
Interest and fiscal charges	12,212	0	396,740	408,952
Total expenditures	14,828,928	2,033,020	1,243,631	18,105,579
Excess (deficiency) of revenues over (under) expenditures	1,426,483	(1,967,854)	137,020	(404,351)
Other financing sources (uses):				
Transfers in	0	0	23,000	23,000
Transfers (out)	(88,000)	0	0	(88,000)
Total other financing sources (uses)	(88,000)	0	23,000	(65,000)
Net change in fund balances	1,338,483	(1,967,854)	160,020	(469,351)
Fund balances, July 1 (restated)	4,927,514	3,137,055	510,446	8,575,015
Fund balance, June 30	<u>\$6,265,997</u>	<u>\$1,169,201</u>	<u>\$670,466</u>	<u>\$8,105,664</u>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net Change in fund Balance - Total Governmental Funds (\$469,351)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital asset additions, net	2,123,124	
Depreciation expense	<u>(541,224)</u>	
Total Capital Assets		1,581,900

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

Taxes	14,175	
Intergovernmental receivables	<u>14,519</u>	
Total		28,694

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

Note principal	230,000	
Lease principal	<u>225,541</u>	
Total		455,541

In the statement of activities, interest is accrued, whereas in the governmental funds, and interest expenditure is reported when due. (6,433)

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

Intergovernmental payable	19,378	
Compensated absences	<u>(129,477)</u>	
Total		<u>(110,099)</u>

Change in net assets of governmental activities \$1,480,252

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET-ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:				
From local sources:				
Taxes	\$10,047,700	\$10,181,863	\$10,302,491	\$120,628
Tuition	131,000	130,742	130,742	0
Earnings on investments	86,000	85,495	85,495	0
Classroom materials and fees	130,000	128,508	128,508	0
Other local revenues	100,000	61,514	61,514	0
Intergovernmental - state and local	4,561,998	4,811,552	4,596,015	(215,537)
Total revenues	15,056,698	15,399,674	15,304,765	(94,909)
Expenditures:				
Current:				
Instruction:				
Regular	7,703,444	7,596,442	7,596,442	0
Special	1,006,229	925,955	925,955	0
Other	44,100	63,939	63,939	0
Support services:				
Pupil	813,435	770,771	770,771	0
Instructional staff	1,325,091	1,108,298	1,108,298	0
General administration	13,675	7,657	7,657	0
School administration	1,338,810	1,261,446	1,261,446	0
Fiscal	380,526	373,574	373,574	0
Business	4,000	24,250	24,250	0
Operations and maintenance	1,885,378	1,827,188	1,827,188	0
Pupil transportation	510,724	509,894	509,894	0
Central	64,402	94,687	94,687	0
Extracurricular activities	369,017	287,228	287,228	0
Capital Outlay	142,700	185,568	185,568	0
Total expenditures	15,601,531	15,036,897	15,036,897	0
Excess (deficiency) of revenues over (under) expenditures	(544,833)	362,777	267,868	(94,909)
Other financing sources (uses):				
Operating transfers (out)	(30,000)	(202,519)	(202,519)	0
Refund of prior year expenditures	0	(35,530)	(35,530)	0
Total other financing sources (uses)	(30,000)	(238,049)	(238,049)	0
Net change in fund balances	(574,833)	124,728	29,819	(94,909)
Fund balance, July 1	3,981,387	3,981,387	3,981,387	0
Prior year encumbrances appropriated	146,578	146,578	146,578	0
Fund balance, June 30	\$3,553,132	\$4,252,693	\$4,157,784	(\$94,909)

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2003**

	Business-Type Activities Non-major Enterprise Funds
	Total
Assets:	
Equity in pooled cash and investments	\$12,662
Receivables:	
Accounts	163
Materials and supplies inventory	9,345
Total current assets	22,170
Depreciable capital assets, net	63,015
Total assets	85,185
 Liabilities:	
Accounts payable	403
Accrued wages and benefits	23,089
Intergovernmental payable	13,198
Compensated absences payable	1,271
Total liabilities	37,961
 Net assets:	
Invested in capital assets	63,015
Unrestricted	(15,791)
Total net assets	\$47,224

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Business-Type Activities
Non-major Enterprise Funds

	Total
Revenues:	
Tuition and fees	\$153,117
Charges for services	197,891
	351,008
Total revenues	351,008
Expenses:	
Salaries & wages	128,552
Fringe benefits	31,919
Contract services	19,545
Supplies	277,667
Depreciation	7,563
	465,246
Total expenses	465,246
Operating (loss)	(114,238)
Nonoperating revenues:	
Operating grants - state & local	665
Operating grants - federal	30,100
Operating grants - donated commodities	14,734
	45,499
Total nonoperating revenues	45,499
Income (loss) before transfers-in	(68,739)
Transfers-in	65,000
	(3,739)
Change in net assets	(3,739)
Net assets beginning of year (restated)	50,963
Net assets end of year	\$47,224

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Business-Type Activities Non-major Enterprise Funds
	<u>Total</u>
Cash flows from operating activities:	
Cash received from tuition and fees	\$153,347
Cash received from charges and fees	217,891
Cash payments for personal services	(158,266)
Cash payments for contract services	(48,781)
Cash payments for supplies	<u>(266,392)</u>
Net cash used by operating activities	(102,201)
Cash flows from noncapital financing activities:	
Cash received from operating grants	30,765
Cash received from transfer-in	<u>65,000</u>
Net cash provided by noncapital financing activities	95,765
Net increase in cash and cash equivalents	(6,436)
Cash and cash equivalents at beginning of year	<u>19,098</u>
Cash and cash equivalents at end of year	<u><u>\$12,662</u></u>
Reconciliation operating loss to net cash provided by operating activities:	
Operating (loss)	(114,238)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	7,563
Donated commodities used	14,734
Changes in assets and liabilities:	
Decrease in accounts receivable	20,230
(Increase) in materials and supplies inventory	(462)
Increase (Decrease) in accounts payable	(29,178)
(Decrease) in accrued wages and benefits	(1,139)
(Decrease) in deferred revenues	(3,055)
Increase in intergovernmental payable	3,387
(Decrease) in compensated absences	<u>(43)</u>
Net cash used by operating activities	<u><u>(\$102,201)</u></u>

Noncapital financing activities:

During the year the Food Service Enterprise Fund used materials and supplies inventory valued at \$14,734. This inventory was donated to the District and no cash payments were made to acquire the inventory. An expense for this usage was included in the Operating Loss of the fund and therefore, Donated Commodities must be recognized as an adjustment to reconcile to net cash used by operating activities.

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2003**

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
ASSETS:		
Equity in pooled cash and investments	<u>\$85,127</u>	<u>\$54,114</u>
LIABILITIES:		
Due to others		<u>\$54,114</u>
NET ASSETS:		
Held in trust for Scholarships	<u>85,127</u>	
TOTAL NET ASSETS	<u>\$85,127</u>	

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
ADDITIONS:	
Donation	\$85,000
Interest	427
TOTAL ADDITIONS	<u>85,427</u>
DEDUCTIONS:	
Award	<u>300</u>
Change in net assets	85,127
Net assets beginning of year	<u>0</u>
Net assets end of year	<u><u>\$85,127</u></u>

See accompanying notes.

**MARIEMONT CITY SCHOOL DISTRICT, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE A--DESCRIPTION OF THE DISTRICT

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

The District operates under a locally elected five member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board controls the District's instructional and support facilities staffed by 71 non-certificated personnel and 139 certificated full time teaching and administrative personnel to provide services to students and other community members. The District is the 16th largest in Hamilton County (among 22 Districts) in terms of enrollment. It currently operates 3 elementary schools, 1 junior high school (grades 7-8), and 1 high school (grades 9-12).

THE REPORTING ENTITY

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For Mariemont City School District, this includes general operations, food service, preschool and student related activities of the District. The District is associated with two organizations that are defined as a jointly governed organization. These organizations are H/CCA and Great Oaks Institute of Technology and Career Development and are presented in Note P to the Basic Financial Statements.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FUND ACCOUNTING

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

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

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

Building Capital Projects Fund The building capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds.

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

Proprietary Funds Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as enterprise.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Fiduciary Fund Fiduciary fund reporting focuses on net assets and changes in net assets. Trust funds are used to account for assets held by the district under a trust agreement for individuals, private organizations, other governments and are therefore not available to support the District's own programs. The District's only fiduciary funds are a private purpose trust which accounts for a scholarship program for students from Fairfax Elementary and an agency fund which accounts for student activities.

BASIS OF PRESENTATION

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

All proprietary fund types 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 statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and 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 the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

BUDGETARY DATA

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

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

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

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

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

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

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

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

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

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002-2003 and none were significant.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

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

Fund Type

Governmental:
General

\$ (564,634)

ENCUMBRANCES

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

CASH AND INVESTMENTS

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the combined balance sheet. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. During fiscal year 2003, \$78,686 of interest revenue was credited to the general fund, \$30,566 was credited to the building capital projects fund and \$1,256 was credited to the other governmental funds.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are reported as cash equivalents.

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio), during fiscal year 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.

RESTRICTED ASSETS

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 2002	\$ 0	\$ 0	\$ 280,645
Current Year Set-aside Requirement	240,076	240,076	0
Additional Qualifying Disbursements	<u>(963,975)</u>	<u>(2,828,751)</u>	<u>140,645</u>
Total	<u>\$(723,899)</u>	<u>\$(2,588,674)</u>	<u>\$ 140,000</u>
Set-aside Cash Balance as of June 30, 2003	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 140,000</u>

INVENTORY (MATERIALS AND SUPPLIES)

On government-wide financial statements, inventories are presented at the lower or cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of the enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories of the enterprise funds consist of donated food, purchased food, and non-food supplies held for resale and are expensed when used.

CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of fifteen hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	10-40 years	N/A
Furniture and Equipment	5-15 years	5-15 years
Vehicles	10 years	N/A

INTERFUND TRANSACTIONS

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

COMPENSATED ABSENCES

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

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

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

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

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

For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Notes and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

INTERFUND ACTIVITY

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

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.

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

FUND EQUITY

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

NOTE C—FUND BALANCE / NET ASSET DEFICIT

The Title VI-B and Chapter II Special Revenue Funds had a deficit fund balances of \$13,616 and \$903, respectively, due to delays in cash being receipted to the District from the Ohio State Department of Education. The Extended Time Enterprise Fund had net assets of \$32,890 due to the decrease in enrollment.

NOTE D--EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

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

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

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

Deposits

At year end the carrying amount of the District's deposits was \$1,006,311. The bank balance of deposits was \$1,211,710. Of the bank balance, \$100,000 was covered by federal depository insurance and \$1,111,710 was covered by collateral held by third party trustees pursuant to Section 135.181 Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Investments

The Governmental Accounting Standards Board has established categories to give an indication of the level of risk assumed by the entity at year end. CATEGORY 1 includes investments that are issued or registered or for which the securities are held by the District or its agent in the District's name. CATEGORY 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. CATEGORY 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at June 30, 2003 are classified as follows:

1	<u>Category</u> 2	3	Carrying Value	Fair Value
State Treasury Pool ¹			\$4,236,983	\$4,236,983
US Treasury Bonds and Notes		<u>\$834,678</u>	<u>834,678</u>	<u>834,678</u>
Total Investments		<u>\$834,678</u>	<u>\$5,071,661</u>	<u>\$5,071,661</u>

¹ The District's investment in the Ohio State Treasurer's pool is not categorized because it is not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

NOTE E--PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed value, by property classification, upon which taxes collected in 2003 were based are as follows:

Tangible personal property	\$ 27,686,110
Real estate	<u>251,971,570</u>
Total assessed property value	<u>\$279,657,680</u>

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at twenty-five percent of true value (as defined). In 2003, each business was eligible to receive a \$10,000 exemption in assessed value, which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2003, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due June 20th.

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes that are measurable at June 30, 2003. Property tax advances available at year end and delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2003. All other tax receivables are recorded with an offset credit to deferred revenue, because although measurable, they are intended to finance the next fiscal year's operations.

NOTE F--RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts receivable, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose of the nonpayment of taxes, the stable condition of State Programs, and the current year guarantee of Federal Funds.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	
Title VI-B	13,616
Chapter II	903
Total	<u>\$14,519</u>

NOTE G--CAPITAL ASSETS

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

	Restated Balance 6/30/2002	Additions	Deductions	Balance 6/30/2003
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$919,079	\$0	\$0	\$919,079
Construction in progress	4,345,370	1,988,554	0	6,333,924
Capital Assets being depreciated:				
Building and improvements	5,754,002	0	0	5,754,002
Furniture and equipment	4,156,030	73,210	0	4,229,240
Vehicles	525,604	61,360	0	586,964
Total historical cost	15,700,085	2,123,124	0	17,823,209
Less accumulated depreciation:				
Building and improvements	5,058,599	139,286	0	5,197,885
Furniture and equipment	2,750,714	366,505	0	3,117,219
Vehicles	382,016	35,433	0	417,449
Total accumulated depreciation	8,191,329	541,224	0	8,732,553
Governmental Activities Capital Assets, net	<u>\$7,508,756</u>	<u>\$1,581,900</u>	<u>\$0</u>	<u>\$9,090,656</u>
Business-Type Activities				
Furniture and equipment	\$237,820	\$0	\$0	\$237,820
Total historical cost	237,820	0	0	237,820
Less accumulated depreciation:				
Furniture and equipment	167,242	7,563	0	174,805
Total accumulated depreciation	167,242	7,563	0	174,805
Business-Type Activities Capital Assets, net	<u>\$70,578</u>	<u>(\$7,563)</u>	<u>\$0</u>	<u>\$63,015</u>

Depreciation expense was charged as follows:

Governmental activities

Instruction:	
Regular	\$286,136
Special	4,619
Support services:	
Instructional staff	176,674
School administration	25,816
Business	84
Operations & maintenance	11,476
Pupil transportation	35,015
Extracurricular activities	<u>1,404</u>
 Total	 <u><u>\$541,224</u></u>

Business-type activities

Food service	<u><u>\$7,563</u></u>
--------------	-----------------------

NOTE H--CAPITALIZED LEASES - LESSEE

In prior years, the District has entered into capitalized leases for the acquisition of phone and office and energy conservation equipment. The terms of each agreement provide options to purchase the equipment. The cost of equipment under capital lease at June 30, 2003 was \$683,687. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service in the governmental funds financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

June 2004	\$ 83,881
June 2005	25,982
June 2006	<u>2,901</u>
Total Payments	\$ <u>112,764</u>
Less: Amounts representing Interest	<u>5,204</u>
Present Value of Minimum Lease Payments	\$ <u><u>107,560</u></u>

NOTE I-- LONG-TERM LIABILITIES

In 2001, the District issued \$8,015,722 of general obligation bonds. The purpose of the bonds is to provide general, ongoing permanent improvements consisting of building renovations, improvements and repair. The bond issue is a general obligation of the school district for which the full faith and credit of the school district is pledged for repayment. The following is a description of the District's long term bonds outstanding as of June 30, 2003:

<u>Purpose</u>	<u>Balance July 1, 2002</u>	<u>Addition 2003</u>	<u>Retirement 2003</u>	<u>Balance June 30, 2003</u>
Bonds:				
Permanent Improvement	\$ 7,790,722	\$ 0	\$ 230,000	\$ 7,560,722
Interest Rate – 6.34%				
Issue Date – 8/01/01				
Maturity Date – 12/01/26				

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$245,000	\$385,991	\$630,991
2005	255,000	375,553	630,553
2006	265,000	372,527	637,527
2007	280,000	349,785	629,785
2008	290,000	336,318	629,785
2009-13	1,043,451	2,107,462	3,150,913
2014-18	1,167,271	1,966,818	3,134,089
2019-23	2,305,000	800,818	3,105,818
2024-26	1,710,000	144,375	1,854,375
Total	<u>\$7,560,722</u>	<u>\$7,102,644</u>	<u>\$14,663,366</u>

NOTE J--CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2003, the following changes occurred in long-term liabilities

	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Bonds Payable	\$7,790,722	\$0	\$230,000	\$7,560,722	\$245,000
Compensated Absences	824,681	116,852	0	941,533	53,065
Capital Leases	333,101		225,541	107,560	79,587
Total Governmental Activities					
Long-Term Liabilities	<u>\$8,948,504</u>	<u>\$116,852</u>	<u>\$455,541</u>	<u>\$8,609,815</u>	<u>\$377,652</u>
Business-Type Activities					
Compensated Absences	<u>\$1,314</u>	<u>\$0</u>	<u>\$43</u>	<u>\$1,271</u>	<u>\$1,271</u>

Bonds payable will be paid from the debt service fund. Capital lease payments will be made from the general fund. Compensated absences will be paid from the fund from which the employee is paid.

NOTE K--LEGAL DEBT MARGIN

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

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$17,608,469 and an unvoted debt margin of \$279,658.

NOTE L-EMPLOYEE RETIREMENT SYSTEMS

STATE TEACHERS RETIREMENT SYSTEM

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

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

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,034,547, \$1,030,249, and \$984,090 respectively; 76 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. With \$247,297 representing the unpaid contribution for fiscal year 2003, it is recorded as a liability within the respective funds.

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2003, 8.17 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, be 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 \$476,500 and \$467,855 and \$468,165, respectively. The District has contributed 52 percent for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. With \$229,754 representing the unpaid contribution for fiscal year 2003, it is recorded as a liability within the respective funds.

NOTE M --POSTEMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$332,532 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. 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, 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.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, results in a total health care contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount to fund health care benefits, including surcharge, equaled \$313,814 during the 2003 fiscal year. For the year ended June 30, 2002, net health care costs paid by SERS were \$182,946,777. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE N--BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. A reconciliation of the nature and amounts of the adjustments necessary to convert the GAAP financial statements to the budgetary basis follows:

Net Change in Fund Balance	
	General Fund
GAAP Basis	\$ 1,338,483
Revenue Accruals	(950,646)
Expenditure Accruals	(150,936)
Other Sources and Uses Accruals	(150,049)
Encumbrances	<u>(57,033)</u>
Budgetary Basis	<u>\$ 29,819</u>

NOTE O--CONTINGENT LIABILITIES

GRANTS

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

LITIGATION

Currently, no litigation is pending against the District.

NOTE P--JOINTLY GOVERNED ORGANIZATIONS

HAMILTON/CLERMONT COOPERATIVE ASSOCIATION

The Hamilton/Clermont Cooperative Association (H/CCA) is a governmental jointly governed organization among two county consortium of school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports H/CCA based upon a per pupil charge dependent upon the software package utilized. H/CCA is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

GREAT OAKS INSTITUTE OF TECHNOLOGY AND CAREER DEVELOPMENT

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

NOTE Q--RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property

damage. Payments have not exceeded this coverage in any of the past three years. There has been no significant decline in coverage from the prior year.

NOTE R--SCHOOL FUNDING DECISION

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.

As of the date of these financial statements, the District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTE S -- CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For fiscal year 2003, the District implemented the following:

- GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – For State and Local Governments*.
- GASB Statement No. 37, *Basic Financial Statements – Management’s Discussion and Analysis – For State and Local Governments: Omnibus*.
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.
- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.
- GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District’s programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the Enterprise Funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002.

RESTATEMENT OF FUND BALANCE

The implementation of these statements had the following effects on fund balance of the major and non-major funds of the District as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

	Total
Fund Balances, June 30, 2002	\$8,574,077
Fund Reclassification	938
Adjusted Fund Balances, June 30, 2002	8,575,015
GASB 34 Adjustments:	
Capital assets	7,508,756
Accrued interest payable	(38,493)
Intergovernmental payable	(125,436)
Deferred revenue	393,994
Long-term liabilities	(8,948,504)
Governmental activities net assets, June 30,2002	\$7,365,332

At June 30, 2002, fixed assets were restated in the Food Service Enterprise Fund due to a change in the capitalization threshold, from two hundred (\$500) to fifteen hundred dollars (\$1,500) and a prior period adjustment. The Uniform School Supply Fund was reclassified within a nonmajor fund as a governmental activity. These restatements had the following effect on fund equity as it was previously reported:

	<u>Enterprise Funds</u>
Fund Equity, June 30, 2002	\$6,843
Fixed Assets	45,058
Fund Reclassification	<u>(938)</u>
Adjusted net assets, June 30, 2002	<u><u>\$50,963</u></u>

NOTE T – INTERFUND TRANSACTIONS

On the fund financial statement, the General Fund has a receivable of \$14,519 that consists of amounts due from a non-major governmental fund. This interfund loan was made to provide operating capital. Interfund transfers for the year ended June 30, 2003, consisted of transfers from the General Fund to the following funds:

Non-major Governmental Funds	\$23,000
Non-major Enterprise Funds	<u>65,000</u>
Total	<u><u>\$88,000</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

MARIEMONT CITY 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.

MARIEMONT CITY 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 Donation	n/a	10.550	\$ 15,300	15,300
National School Lunch Program	LLP4	10.555	<u>30,100</u>	<u>30,100</u>
Total U.S. Department of Agriculture			<u>45,400</u>	<u>45,400</u>
<u>U.S. Department of Education:</u>				
(Passed through Ohio Department of Education)				
Title I Grants to Local Educational Agencies	C1S1	84.010	71,271	71,058
Special Education Cluster:				
Special Education Grants to States	6BSF	84.027	122,547	122,547
Special Education - Preschool Grants	PGS1	84.173	<u>3,733</u>	<u>3,733</u>
			126,280	126,280
Safe and Drug-Free Schools and Communities State - Grants	DRS1	84.186	5,169	5,169
Innovative Education Program Strategy	C2S1	84.298	14,415	14,415
Education Technology State Grants	TJS1	84.318	1,887	1,887
School Renovation Grants	ATS3	84.352	23,384	23,384
Improving Teacher Quality State Grants	TRS1	84.367	<u>32,408</u>	<u>32,408</u>
Total U.S. Department of Education			<u>274,814</u>	<u>274,601</u>
Total Federal Awards			\$ <u>320,214</u>	<u>320,001</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.

This Page is Intentionally Left Blank.

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

**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
Mariemont City School District:

We have audited the financial statements of the Mariemont City School District (the School District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 5, 2004 wherein we noted that the School District implemented Governmental Accounting Standards Board Statements 34, 37, 38 and 39 as well as Governmental Accounting Standards Board Interpretation 6. 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 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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, Hackett & Co.

Cincinnati, Ohio
February 5, 2004

**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
Mariemont City School District:

Compliance

We have audited the compliance of Mariemont City 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. Mariemont City 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 Mariemont City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, Mariemont City 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 Mariemont City 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 Mariemont City 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.

Clack, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 5, 2004

MARIEMONT CITY 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 weakness(es)?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weakness(es)?	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:

CFDA 84.010 – Title I Grants to Local Educational Agencies

Special Education Cluster:

CFDA 84.027 – Special Education Grants to States

CFDA 84.173 – Special Education – Preschool Grants

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MARIEMONT CITY SCHOOL DISTRICT

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 20, 2004**