

HAMILTON LOCAL SCHOOL DISTRICT

FRANKLIN COUNTY

SINGLE AUDIT

For the Fiscal Year Ended June 30, 2003

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS





**Auditor of State
Betty Montgomery**

Board of Education
Hamilton Local School District

We have reviewed the Independent Auditor's Report of the Hamilton Local School District, Franklin County, prepared by J. L. Uhrig & Associates, Inc., 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 Hamilton Local School District is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

March 22, 2004

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HAMILTON LOCAL SCHOOL DISTRICT

Table of Contents

For the Fiscal Year Ended June 30, 2003

FINANCIAL SECTION

Independent Auditor’s Report 1

Management’s Discussion and Analysis. 3

Basic Financial Statements:

 Government-wide Financial Statements

 Statement of Net Assets 13

 Statement of Activities 14

 Fund Financial Statements

 Balance Sheet - Governmental Funds 15

 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities 16

 Statement of Revenues, Expenditures, and Changes in Fund
 Balances - Governmental Funds 17

 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
 Balances of Governmental Funds to the Statement of Activities 18

 Statement of Revenues, Expenditures, and Changes in Fund 19
 Balances - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund

 Statement of Net Assets - Proprietary Funds 20

 Statement of Revenues, Expenses, and Changes in Fund Net Assets - 21
 Proprietary Funds

 Statement of Cash Flows - Proprietary Funds 22

 Statement of Fiduciary Net Assets - Fiduciary Funds 23

Notes to the Basic Financial Statements 24

HAMILTON LOCAL SCHOOL DISTRICT

Table of Contents

For the Fiscal Year Ended June 30, 2003

SUPPLEMENTAL SCHEDULE

Schedule of Federal Awards Expenditures 46

AUDIT REPORTS

Report on Compliance and on Internal Control over Financial Reporting 47
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

Report on Compliance with Requirements Applicable to Each Major 49
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133

Schedule of Findings and Questioned Costs 51

Schedule of Prior Audit Findings 53

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Independent Auditor's Report

Board of Education
Hamilton Local School District
1055 Rathmell Road
Columbus, Ohio 43207

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hamilton Local School District (the District) as of and for the year ended June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 19, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis* - for State and Local Governments.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 27, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

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

Board of Education
Hamilton Local School District
Independent Auditor's Report

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

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

February 27, 2004

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

As management of the Hamilton Local School District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended June 30, 2003.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$ 4.1 million (net assets).
- The District's net assets increased by \$ 72,728, or 1.8%. Program revenues accounted for \$ 2.0 million or 7.8% of total revenues, and general revenues accounted for \$ 21.7 million, or 92.2%.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 6.3 million, a decrease of \$ 8.0 million in comparison with the prior year. Of this total amount, \$ 1.0 million is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was negative \$ 3.3 million, or -17% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 13-14 of this report.

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 28 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general and construction funds which are considered major funds. Data from the other 26 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Funds

The Hamilton Local School District's only proprietary fund is the internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Hamilton Local School District's various functions. The internal service fund is used to account for its Bureau of Worker's Compensation premiums and the board share of employee retirement contributions. Since the internal service fund exclusively benefits governmental functions, it has been included within governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The basic fiduciary fund financial statement can be found on page 23 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 24 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 4.1 million at the close of the most recent fiscal year.

A large portion of the District's net assets, totaling \$3.7 million, reflects its investment in capital assets (e.g. land, buildings, equipment, etc.); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the District's net assets totaling \$8.2 million is restricted. The majority of this restricted balance is for capital projects. The large amount of restricted net assets has resulted in a negative remaining balance of unrestricted net assets.

	District Net Assets	
	2002	2003
Current Assets	\$ 27,377,345	\$ 17,211,461
Capital Assets	7,630,643	15,461,410
Total Assets	35,007,988	32,672,871
Current Liabilities	12,661,796	10,428,516
Long-Term Liabilities	18,247,652	18,073,087
Total Liabilities	30,909,448	28,501,603
Net Assets:		
Invested in Capital Assets, net of related debt	3,636,734	3,729,300
Restricted	15,656,472	8,200,579
Unrestricted	(15,194,666)	(7,758,611)
Total Net Assets	\$ 4,098,540	\$ 4,171,268

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Activities

The District's net assets increased by \$ 72,728, or 1.8%. Key elements of this increase are as follows:

**Changes in Net Assets
Governmental Activities 2003**

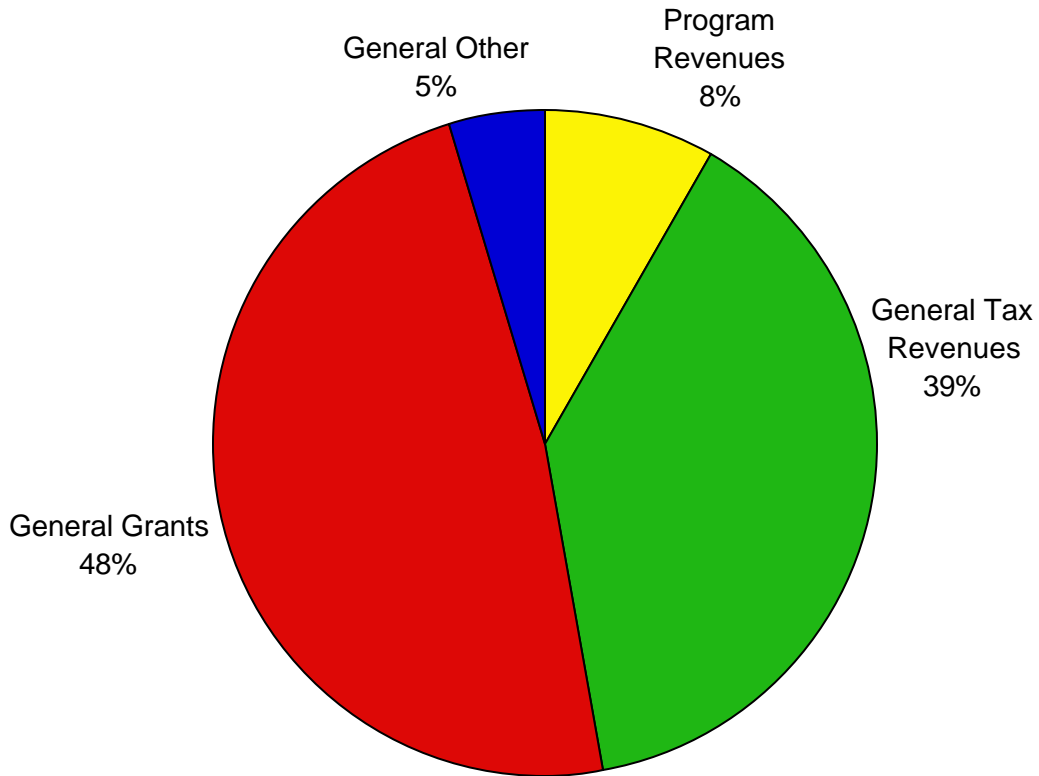
Revenues:	
Program Revenues	
Charges for Services	\$ 758,154
Operating Grants	<u>1,199,235</u>
Total Program Revenues	1,957,389
General Revenues	
Property Taxes	9,240,868
Grants and Entitlements	11,330,913
Other Revenue	<u>1,135,150</u>
Total General Revenue	<u>21,706,931</u>
Total Revenues	<u><u>23,664,320</u></u>
Expenses:	
Program Expenses	
Instruction	11,420,319
Support Services	9,327,339
Non-Instructional	912,070
Extra Curricular Activities	816,344
Interest and Fiscal Charges	887,784
Miscellaneous	<u>227,736</u>
Total Expenses	<u><u>23,591,592</u></u>
Changes in Net Assets	<u><u>\$ 72,728</u></u>

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The Statement of Activities shows the cost of program services and the charges for services and grants associated with those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities. The net cost of program services must be supported by general revenues including tax revenue, investment earnings and unrestricted state entitlements.

	Total Cost of Services 2003	Net Cost of Services 2003
Program Expenses		
Instruction		
Regular	\$ 8,611,274	\$ 8,393,209
Special	1,885,922	1,186,118
Vocational	562,246	562,246
Other	360,877	360,877
Support Services		
Pupil	998,766	967,490
Instructional Staff	730,056	687,806
Board of Education	199,536	199,536
Administration	1,945,114	1,934,456
Fiscal Services	2,514,981	2,514,981
Maintenance	1,949,288	1,949,288
Pupil Transportation	863,975	863,975
Central	125,623	125,623
Noninstructional Activities	912,070	160,797
Extracurricular Activities	816,344	612,281
Interest and Fiscal Charges	887,784	887,784
Miscellaneous	<u>227,736</u>	<u>227,736</u>
Total Expense	<u>\$ 23,591,592</u>	<u>\$ 21,634,203</u>

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited



The District's reliance upon tax revenues is demonstrated by the graph above indicating 39% of total revenues from local taxes. The reliance on general revenues is indicated by the net cost of services column on the preceding page reflecting the need for \$21.6 million of support, as well as the graph above, indicating general revenues comprise 92% of total revenues.

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6.4 million, a decrease of \$8.0 million in comparison with the prior year. Approximately 16% of this amount (\$1.0 million) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$3.8 million) or for a variety of other restricted purposes (\$ 1.6 million).

The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	Fund Balance <u>June 30, 2002</u>	Increase <u>(Decrease)</u>
General	\$ (1,873,642)	\$ (842,598)	\$ (1,031,044)
Construction	6,627,806	14,844,177	(8,216,371)
Other Governmental	<u>1,617,329</u>	<u>375,483</u>	<u>1,241,846</u>
Total	<u>\$ 6,371,493</u>	<u>\$ 14,377,062</u>	<u>\$ (8,005,569)</u>

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was negative \$3.3 million, while total fund balance was negative \$1.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents -17% of total general fund expenditures, while total fund balance represents -9% of that same amount.

The District's general fund balance decreased by \$ 1.0 million during the current fiscal year. The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

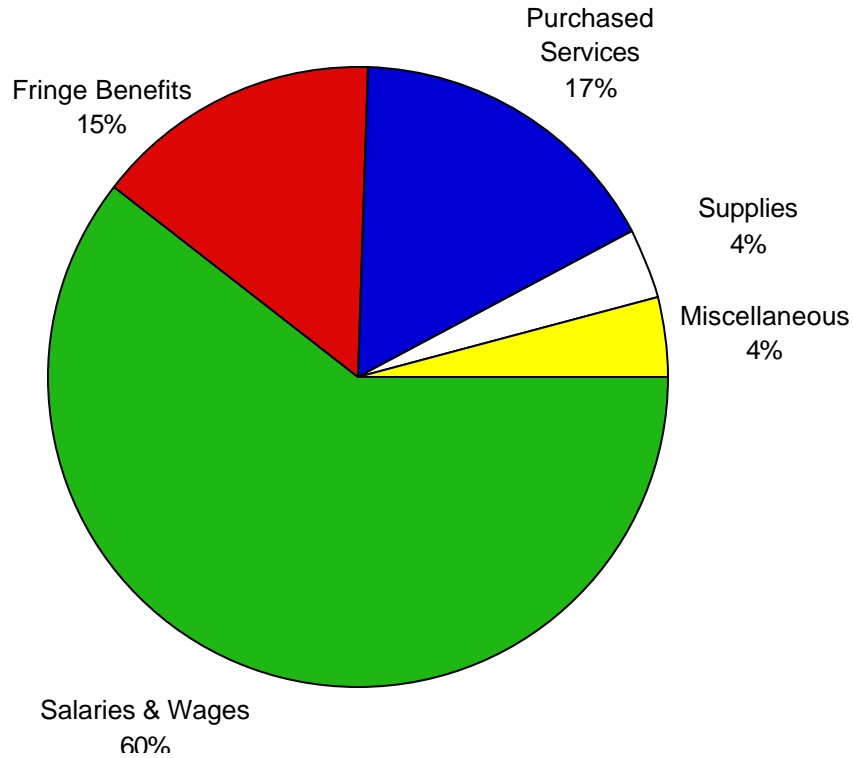
General Fund Revenue Comparative Analysis

<i>Revenues</i>	<i>2003 Amount</i>	<i>2002 Amount</i>	<i>Percentage Change</i>
Taxes	\$ 7,298,617	\$ 7,009,118	4%
Intergovernmental	11,846,682	10,661,557	11%
Interest	165,611	225,015	-26%
Tuition and Fees	43,383	48,197	-10%
Rentals	44,134	16,125	274%
Other	<u>92,465</u>	<u>37,048</u>	250%
Total	<u>\$ 19,490,892</u>	<u>\$ 17,997,060</u>	8%

Intergovernmental revenues of the general fund increased \$ 1.2 million, or 11%. This increase is the result of an increase in school foundation grants received from the Department of Education, which directly correlates with a significant increase in the District's student enrollment.

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

As the graph below illustrates, the largest portions of general fund expenditures are for salaries and fringe benefits. The District is a service entity and as such is labor intensive.



	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percent</u> <u>Change</u>
Expenditures by Object:			
Salaries and Wages	\$ 11,949,386	\$ 11,304,603	6%
Fringe Benefits	2,959,921	2,321,660	27%
Purchased Services	3,268,392	3,160,659	3%
Supplies	715,912	876,971	-18%
Miscellaneous	813,857	570,760	43%
Total	<u>\$ 19,707,468</u>	<u>\$ 18,234,653</u>	8%

The District's general fund expenditures increased \$ 1.5 million, or 8%, over the prior year. The Salaries and Wages increase of \$ 644,783 and the Fringe Benefits increase of \$ 638,261 make up the majority of the increase.

The Salaries and Wages increase directly correlates with employee cost-of-living and step increases. The two primary components of the Fringe Benefits increase were the salary and wages increase of 6% and a 13% increase in employee insurance premiums during fiscal year 2003.

Hamilton Local School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

General Fund Budget Information

The District's budget is prepared in accordance with Ohio law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Differences between the original budget and the final amended budget of the general fund were relatively minor. The original revenue estimate exceeded the final amended estimate by \$209,250, or 1.2%. The original and final amended appropriations remained unchanged. The District's actual revenues and actual expenditures exceeded the District's final amended estimate and final amended appropriations, respectively, resulting in noncompliance (Note 3).

Capital Assets

The District's investment in capital assets as of June 30, 2003, amounts to \$ 3.7 million (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, furniture, fixtures and equipment, vehicles, and land improvements. Total acquisitions for the current fiscal year were \$ 8.6 million and depreciation was \$ 592,052. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 8).

Debt

At June 30, 2003, the District had \$ 17 million in outstanding bonds payable. The District paid \$535,181 in principal on bonds outstanding during the fiscal year. Detailed information regarding long-term debt is included in the notes to the basic financial statements (Note 14).

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total value of real and personal property. At June 30, 2003, the District's general obligation debt was below the legal limit.

Restrictions and Other Limitations

A major challenge facing the District is the future of state funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 7,670,574
Receivables:	
Taxes	7,797,505
Accounts	17,226
Intergovernmental	1,703,825
Supplies Inventory	22,331
Capital Assets, Net	15,461,410
Total Assets	32,672,871
Liabilities	
Accounts Payable	515,043
Accrued Salaries Payable	1,747,921
Intergovernmental Payable	1,488,613
Accrued Interest Payable	69,917
Deferred Revenue	6,607,022
Long-Term Liabilities	
Due within One Year	757,167
Due in More Than One Year	17,315,920
Total Liabilities	28,501,603
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,729,300
Restricted for:	
Debt Service	334,402
Capital Projects	7,669,926
Other Purposes	196,251
Unrestricted	(7,758,611)
Total Net Assets	\$ 4,171,268

See accompanying notes to the financial statements

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction				
Regular Instruction	\$ 8,611,274	\$ 43,383	\$ 174,682	\$ (8,393,209)
Special Instruction	1,885,922	-	699,804	(1,186,118)
Vocational Instruction	562,246	-	-	(562,246)
Other Instruction	360,877	-	-	(360,877)
Support Services				
Pupils	998,766	-	31,276	(967,490)
Instructional Staff	730,056	-	42,250	(687,806)
Board of Education	199,536	-	-	(199,536)
Administration	1,945,114	-	10,658	(1,934,456)
Fiscal Services	2,514,981	-	-	(2,514,981)
Maintenance	1,949,288	-	-	(1,949,288)
Pupil Transportation	863,975	-	-	(863,975)
Central	125,623	-	-	(125,623)
Non-instructional	912,070	510,708	240,565	(160,797)
Extra Curricular Activities	816,344	204,063	-	(612,281)
Interest and Fiscal Charges	887,784	-	-	(887,784)
Miscellaneous	227,736	-	-	(227,736)
Total Governmental Activities	\$ 23,591,592	\$ 758,154	\$ 1,199,235	\$ (21,634,203)

General Revenues

Property Taxes Levied for:

General Purposes	7,298,617
Debt Service	1,434,494
Capital Projects	507,757
Grants & Entitlements not Restricted to Specific Programs	11,330,913
Payment in Lieu of Taxes	653,094
Investment Earnings	222,622
Miscellaneous	259,434

Total General Revenues 21,706,931

Change in Net Assets	72,728
Net Assets Beginning of Year - (See Note 19)	4,098,540
Net Assets End of Year	<u>\$ 4,171,268</u>

See accompanying notes to the financial statements

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 78,832	\$ 5,223,709	\$ 1,540,124	\$ 6,842,665
Receivables:				
Taxes	6,319,385	-	1,478,120	7,797,505
Accounts	4,929	-	1,246	6,175
Intergovernmental	-	1,443,358	260,467	1,703,825
Supplies Inventory	-	-	22,331	22,331
Interfund Receivable	272,849	-	17,578	290,427
Total Assets	<u>6,675,995</u>	<u>6,667,067</u>	<u>3,319,866</u>	<u>16,662,928</u>
Liabilities:				
Accounts Payable	461,465	39,261	14,317	515,043
Accrued Salaries Payable	1,609,483	-	138,438	1,747,921
Intergovernmental Payable	1,079,162	-	1,229	1,080,391
Interfund Payable	202,484	-	24,195	226,679
Deferred Revenue	5,067,007	-	1,524,358	6,591,365
Compensated Absences Payable	130,036	-	-	130,036
Total Liabilities	<u>8,549,637</u>	<u>39,261</u>	<u>1,702,537</u>	<u>10,291,435</u>
Fund Balances:				
Reserved				
Encumbrances	207,341	3,425,941	136,083	3,769,365
Supplies Inventory	-	-	22,331	22,331
Property Taxes	1,252,378	-	357,622	1,610,000
Unreserved, Reported in:				
General Fund	(3,333,361)	-	-	(3,333,361)
Special Revenue Funds	-	-	89,518	89,518
Debt Service Fund	-	-	66,723	66,723
Capital Project Funds	-	3,201,865	945,052	4,146,917
Total Fund Balances	<u>(1,873,642)</u>	<u>6,627,806</u>	<u>1,617,329</u>	<u>6,371,493</u>
Total Liabilities and Fund Balances	<u>\$ 6,675,995</u>	<u>\$ 6,667,067</u>	<u>\$ 3,319,866</u>	<u>\$ 16,662,928</u>

See accompanying notes to the financial statements

Hamilton Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances **\$6,371,493**

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. **15,461,410**

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. **(85,574)**

Internal service funds are used by management to charge costs of the employer share of payroll related costs and self insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. **366,990**

Long-Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absence Payable	(987,232)
General Obligation Debt	(16,955,819)
	<hr/> (17,943,051) <hr/>

Net Assets of Governmental Activities **\$4,171,268**

See accompanying notes to the financial statements

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

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

	General Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,298,617	\$ -	\$ 1,942,251	\$ 9,240,868
Intergovernmental	11,846,682	-	1,352,217	13,198,899
Charges for Services	-	-	460,894	460,894
Interest	165,611	57,011	-	222,622
Tuition and Fees	43,383	-	-	43,383
Extracurricular Activities	-	-	204,063	204,063
Rentals	44,134	-	-	44,134
Other	92,465	-	172,649	265,114
Total Revenues	19,490,892	57,011	4,132,074	23,679,977
Expenditures:				
Current:				
Instruction:				
Regular	8,193,269	-	156,458	8,349,727
Special	1,365,496	-	511,118	1,876,614
Vocational	527,230	-	-	527,230
Other	360,877	-	-	360,877
Support services:				
Pupils	900,905	-	77,928	978,833
Instructional staff	624,448	-	33,756	658,204
Board of Education	190,336	-	-	190,336
Administration	1,762,015	-	195,772	1,957,787
Fiscal	2,468,981	-	46,086	2,515,067
Operation and Maintenance of Plant	1,850,675	-	57,263	1,907,938
Pupil Transportation	966,055	-	-	966,055
Central	28,711	-	-	28,711
Non-instructional Services	-	-	901,259	901,259
Extracurricular Activities	468,470	-	354,262	822,732
Capital Outlay	-	8,273,382	-	8,273,382
Debt service:				
Principal Retirement	-	-	535,181	535,181
Interest and Fiscal Charges	-	-	817,867	817,867
Total Expenditures	19,707,468	8,273,382	3,686,950	31,667,800
Excess (Deficiency) of Revenues Over (Under) Expenditures	(216,576)	(8,216,371)	445,124	(7,987,823)
Other financing sources (uses):				
Transfers In	-	-	796,722	796,722
Transfers Out	(814,468)	-	-	(814,468)
Total other financing sources (uses)	(814,468)	-	796,722	(17,746)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,031,044)	(8,216,371)	1,241,846	(8,005,569)
Fund Balance at Beginning of Year	(842,598)	14,844,177	375,483	14,377,062
Fund Balance at End of Year	<u>\$ (1,873,642)</u>	<u>\$ 6,627,806</u>	<u>\$ 1,617,329</u>	<u>\$ 6,371,493</u>

See accompanying notes to the financial statements

Hamilton Local School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ (8,005,569)**

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.

7,830,767

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(15,657)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.

535,181

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

(69,917)

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

(202,077)

Change in Net Assets of Governmental Activities **\$ 72,728**

See accompanying notes to the financial statements

HAMILTON LOCAL SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (Non-GAAP Budgetary Basis)
General Fund
For the fiscal year ended June 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET OVER/(UNDER)
Intergovernmental Revenues	\$ 11,130,817	\$ 11,003,255	\$ 11,846,685	843,430
Property and Other Taxes	6,771,781	6,694,174	7,207,300	513,126
Interest	185,953	183,822	197,912	14,090
Tuition and Fees	26,150	25,850	27,832	1,982
Miscellaneous	144,701	143,042	154,007	10,965
Total Revenues	<u>18,259,402</u>	<u>18,050,143</u>	<u>19,433,736</u>	<u>1,383,593</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,943,551	7,943,551	8,146,519	202,968
Special	1,243,667	1,243,667	1,366,987	123,320
Vocational	486,307	486,307	535,711	49,404
Other	325,046	325,046	358,137	33,091
Support Services:				
Pupils	795,220	795,220	867,728	72,508
Instructional Staff	575,821	575,821	626,176	50,355
Board of Education	176,303	176,303	193,266	16,963
Administration	1,580,970	1,580,970	1,738,085	157,115
Fiscal	2,079,274	2,079,274	2,290,180	210,906
Operation and Maintenance of Plant	1,940,756	1,940,756	1,950,409	9,653
Pupil Transportation	868,690	868,690	946,086	77,396
Central	26,788	26,788	29,515	2,727
Extracurricular Activities	423,793	423,793	465,974	42,181
Total Expenditures	<u>18,466,186</u>	<u>18,466,186</u>	<u>19,514,773</u>	<u>1,048,587</u>
Excess of Revenues Over (Under) Expenditures	<u>(206,784)</u>	<u>(416,043)</u>	<u>(81,037)</u>	<u>335,006</u>
Other Financing Sources (Uses):				
Transfers -Out	(719,664)	(719,664)	(792,929)	(73,265)
Advances - Out	(56,310)	(56,310)	(3,182)	53,128
Total Other Financing Sources (Uses)	<u>(775,974)</u>	<u>(775,974)</u>	<u>(796,111)</u>	<u>(20,137)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(982,758)	(1,192,017)	(877,148)	314,869
Fund Balances at Beginning of Year	263,247	263,247	263,247	0
Prior Year Encumbrances Appropriated	466,004	466,004	466,004	0
Fund Balances at End of Year	<u>\$ (253,507)</u>	<u>\$ (462,766)</u>	<u>\$ (147,897)</u>	<u>\$ 314,869</u>

See accompanying notes to the financial statements

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF JUNE 30, 2003

		Governmental Activities - Internal Service Funds
		<u> </u>
Current Assets		
Equity in Pooled Cash and Cash Equivalents	\$	827,909
Receivables:		
Accounts		11,051
Interfund		226,679
Total Current Assets		<u>1,065,639</u>
 Current Liabilities		
Intergovernmental Payable		408,222
Interfund Payable		290,427
Total Current Liabilities		<u>698,649</u>
 Net Assets		
Unrestricted		366,990
Total Net Assets	\$	<u>366,990</u>

See accompanying notes to the financial statements

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Charges for Services	\$ 1,884,332
Total Operating Revenues	<u>1,884,332</u>
Operating Expenses:	
Fringe Benefits	1,839,836
Purchased Services	43,753
Total Operating Expenses	<u>1,883,589</u>
Operating Income (Loss)	<u>743</u>
Net Assets at Beginning of Year	<u>366,247</u>
Net Assets at End of Year	<u><u>\$ 366,990</u></u>

See accompanying notes to the financial statements.

**HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Funds
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 1,844,014
Cash Paid for Goods and Services	(1,813,636)
Net cash provided by operating activities	30,378
Net Increase (Decrease) in Cash and Cash Equivalents	30,378
Cash and Cash Equivalents at Beginning of Year	797,531
Cash and Cash Equivalents at End of Year	\$ 827,909
 Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Operating Income	\$ 743
 Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Change in Assets and Liabilities	
(Increase) in Accounts Receivable	(11,051)
(Increase) in Due From Other Funds	(40,318)
(Decrease) in Accounts Payable	(662)
Increase in Intergovernmental Payable	9,280
Increase in Due To Other Funds	72,386
Total Adjustments	29,635
Net Cash Provided by Operating Activities	\$ 30,378

See accompanying notes to the financial statements

HAMILTON LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF JUNE 30, 2003

	Agency <u>Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 85,961
Total Assets	<u>\$ 85,961</u>
Liabilities	
Accounts Payable	\$ 839
Due to Students	85,122
Total Liabilities	<u>\$ 85,961</u>

See accompanying notes to the financial statements

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 - NATURE OF OPERATIONS AND DESCRIPTION OF THE ENTITY

The Hamilton Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2002, was 2,905. The District employed 226 certified employees and 85 classified employees. The District is supervised by the Franklin County Educational Service Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

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

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

The District is involved with the Metropolitan Educational Council (MEC), which is defined as a jointly governed organization. Additional information concerning the jointly governed organization is presented in Note 15.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) as applied to governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

A. Fund Accounting

The District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to specific District functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary or fiduciary funds) are accounted for through governmental funds.

General Fund - The General Fund is the general operating fund of the district and is used to account for all financial resources except those required to be accounted for in another fund.

Construction Fund – The Construction Fund is used to account for financial resources to be used for the construction of major capital facilities.

Other Governmental Funds – Other Governmental Funds consist of nonmajor special revenue, debt service and capital project funds. The special revenue funds are established to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes. The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those accounted for by the construction fund.

Proprietary Fund Types:

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector.

Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District on a cost-reimbursement basis.

Fiduciary Fund Types:

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include agency funds. Agency funds are purely custodial and thus do not involve measurement of results of operations.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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 government-wide statements are prepared using the economic resources measurement focus. This approach 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 function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Internal Service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. 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 funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary and fiduciary funds.

Revenues, Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, investment earnings, tuition, grants and student fees.

Deferred Revenue

The District reports deferred revenue on its statement of net assets and governmental fund balance sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available, and for tax receipts the "intended to finance" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of net assets and governmental funds balance sheet and revenue is recognized.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

D. Cash and Investments

The District maintains a cash and investment pool used by all funds. The cash and investment pool has the same characteristics as a demand deposit. Each fund type's portion of this pool is displayed in the financial statements as cash and cash equivalents. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. It is the policy of the District to value investment contracts and money market investments with maturity of one year or less at the time of purchase at cost.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments (Continued)

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

For purposes of the statement of cash flows and for presentation on the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market using the first in, first out (FIFO) method and are expensed when used. On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

F. Capital Assets and Depreciation

General capital assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District does not capitalize interest costs as part of capital assets. Interest is expensed as incurred. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$300. The District does not possess any infrastructure.

All reported capital assets, with the exception of land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Buildings and improvements are charged a full year of depreciation in the year of acquisition or the year the asset is placed into service. Depreciation for furniture, fixtures and equipment, vehicles, and land improvements will begin in the month of acquisition. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land	not depreciated
Land Improvements	10 – 25 years
Buildings & Improvements	20 – 50 years
Furniture and Equipment	5 – 20 years
Buses and Other Vehicles	5 – 15 years

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and become available.

The District currently participates in several state and federal programs, categorized as follows:

Major - General Fund:

Entitlements:

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Allowance

Reimbursable Grants:

- Driver Education
- Telecommunications Act Grant
- Vocational Education

Non-major governmental funds:

Non-Reimbursable Grants:

- Education Management Information Systems
- Title I
- EHA Preschool Handicapped Grant
- Title VI
- Data Communications
- Technology Preparation
- Drug-Free Schools Grant
- Ohio Reads
- Eisenhower Grant
- SchoolNet Grant

Reimbursable Grants:

- National School Lunch Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 55% of the District's operating revenue during the 2003 fiscal year.

H. 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 fund without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Vacation leave accumulated by employees is accrued as a liability as the benefits are earned when the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

A liability for sick leave is accrued using the termination method, which states that an accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absences liability is reported on the entity-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

J. Accrued Liabilities and Long-Term Obligations

All accrued liabilities and long-term debt is reported in the entity-wide financial statements. For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgements and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

K. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicate that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, supplies inventory and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

L. Encumbrances

The District employs encumbrance accounting in governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

M. 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.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

Legal Compliance

The District had one fund with appropriations that exceeded estimated resources. The appropriations in the Construction fund exceeded estimated resources by \$650,000.

The following fund had expenditures plus encumbrances in excess of appropriations at the fund level, which is the legal level of budgetary control adopted by the Board:

	Appropriations	Expenditures plus Encumbrances	Excess
General Fund	\$ 19,242,160	\$ 20,310,884	(\$ 1,068,724)

Fund Deficits

Due to the application of generally accepted accounting principles, the general fund had a deficit fund balance of \$1,873,642 as of June 30, 2003.

NOTE 4 - BUDGET TO GAAP RECONCILIATION

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 requires accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

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

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	
	General Fund
GAAP Basis	\$ (1,031,044)
Revenue Accruals	(404,445)
Expenditure Accruals	785,074
Encumbrances	(226,733)
Budget Basis	\$ (877,148)

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. The Ohio Revised Code authorizes the District to invest interim monies in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit; banker's acceptances; commercial paper notes rated prime and issued by United States corporations; and STAR Ohio.

Protection of the 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 bonds deposited with the treasurer by the financial institution or by a single collateral pool. By law, financial institutions must establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110 percent of public funds on deposit. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees.

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

Deposits

At year-end, the carrying amount of the District's deposits was \$1,791,008 and the bank balance was \$2,102,606. Of the bank balance, \$100,000 was covered by federal deposit insurance and \$2,000,192 was uninsured and uncollateralized. The remaining \$2,414 represents petty cash maintained by the District. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the District's Investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the District holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party'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 counter party, or by its trust department or agent but not in the District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Federal Agency Securities	\$ 511,463	\$ 511,463	\$ 511,463
Repurchase Agreement	3,451,000	3,451,000	3,451,000
STAROhio		<u>2,003,064</u>	<u>2,003,064</u>
		<u>\$ 5,965,527</u>	<u>\$ 5,965,527</u>

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,756,535	\$ 0
Investments which are part of cash management pool:		
Federal Agency Securities	(511,463)	511,463
Repurchase Agreement	(3,451,000)	3,451,000
STAROhio	<u>(2,003,064)</u>	<u>2,003,064</u>
GASB Statement No. 3	<u>\$ 1,791,008</u>	<u>\$ 5,965,527</u>

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. First half collections are received by the District in the second half of the fiscal year. Second half distributions occur in the first half of the following fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be re-valued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property as 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

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

	Calendar Year 2002		Calendar Year 2003	
	<u>Second Half Collections</u>		<u>First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Property - Agricultural / Residential	\$ 109,811,620	47.62%	\$ 128,936,320	50.21%
Real Property - Commercial / Industrial	58,941,440	25.56%	64,471,020	25.11%
Real Property - Public Utilities	117,250	0.05%	123,730	0.05%
Personal Property - General	49,184,440	21.33%	50,625,950	19.72%
Personal Property - Public Utilities	<u>12,546,530</u>	<u>5.44%</u>	<u>12,609,600</u>	<u>4.91%</u>
Total Assessed Values	<u>\$ 230,601,280</u>	<u>100.00%</u>	<u>\$ 256,766,620</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation		\$ 49.91		\$ 53.65

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The Franklin County Treasurer collects property taxes on behalf of all taxing Districts in the County, including the Hamilton Local School District. The county auditor periodically remits to the District its portion of the taxes collected. Calendar year 2003 second-half property tax payments collected by the County by June 30, 2003 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Property taxes receivable represents real property and tangible personal property taxes, public utility taxes and outstanding delinquencies that are measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance is recognized as revenue. The amount available to the District as an advance at June 30, 2003 was \$1,610,000.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (rent, billings for user charged services, and student fees), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds. A summary of the principal items of intergovernmental receivables follows:

Major: Construction Fund	\$ 1,443,358
Nonmajor: Special Revenue Funds	
Food Service	\$ 33,156
Baldrige Training	3,000
Title VI-B IDEA	154,345
Title V	13,416
Improve Teach Quality - Title IIA	47,426
Technology Title II	<u>9,124</u>
Total Intergovernmental Receivables	<u>\$ 260,467</u>
Total Intergovernmental Receivables	<u><u>\$ 1,703,825</u></u>

NOTE 8 – CAPITAL ASSETS

An adjustment to beginning balances has been made to reflect the recording of accumulated depreciation in accordance with GASB Statement No. 34 and the District's reclassification of food service capital assets from proprietary to governmental. These adjustments were netted against a decrease adjustment of \$741,041, which represents a correction of capital asset amounts reported in previous periods.

A summary of capital asset activity during the fiscal year follows:

	Balance July 1, 2002	Prior Period Adjust	Restated July 1, 2002	Additions	Deletions	Balance June 30, 2003
<i>Governmental Activities</i>						
Land	\$ 287,699	\$ -	\$ 287,699	\$ -	\$ -	\$ 287,699
Buildings	6,061,075	(583)	6,060,492	-	-	6,060,492
Improvements	310,773	8,410	319,183	-	-	319,183
Furniture & Equipment	6,394,378	(452,928)	5,941,450	312,777	(162,474)	6,091,753
Vehicles	1,344,819	(59,835)	1,284,984	213,199	(139,450)	1,358,733
Construction in Progress	1,488,606	-	1,488,606	8,106,833	-	9,595,439
Total Capital Assets	<u>15,887,350</u>	<u>(504,936)</u>	<u>15,382,414</u>	<u>8,632,809</u>	<u>(301,924)</u>	<u>23,713,299</u>
Accum. Depreciation:						
Land and Buildings	-	4,079,214	4,079,214	100,730	-	4,179,944
Improvements	-	61,308	61,308	19,259	-	80,567
Equipment	-	2,772,791	2,772,791	394,664	(58,334)	3,109,121
Vehicles	-	838,458	838,458	77,399	(33,600)	882,257
Total	<u>-</u>	<u>7,751,771</u>	<u>7,751,771</u>	<u>592,052</u>	<u>(91,934)</u>	<u>8,251,889</u>
Capital Assets, Net	<u><u>\$ 15,887,350</u></u>	<u><u>(\$ 8,256,707)</u></u>	<u><u>\$ 7,630,643</u></u>	<u><u>\$ 8,040,757</u></u>	<u><u>(\$ 209,990)</u></u>	<u><u>\$15,461,410</u></u>

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation Expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 354,901
Special	700
Vocational	7,873
Support Services:	
Pupil	16,272
Instructional Staff	57,144
Board of Education	9,200
Administration	4,308
Fiscal Services	132
Operations & Maintenance	46,503
Central	92,081
Noninstructional Services	2,174
Extracurricular Activities	764
Total Depreciation Expense	<u>\$ 592,052</u>

NOTE 9 – CONTRACTUAL COMMITMENTS

As of June 30, 2003, the District had contractual commitments related to the construction of a new intermediate school building:

		Contractual Commitment	Expended	Balance 06/30/03
Fanning/Howie Associates, Inc.	Architect / Engineering	\$ 760,000	\$ 723,770	\$ 36,230
Continental Building Systems	General Construction	6,165,437	4,742,174	1,423,263
Romanoff Electric	Electrical	1,376,725	1,024,348	352,377
L.T.M. Plumbing & HVAC Co., Inc.	Plumbing	452,397	410,009	42,388
S.A. Comunale Co., Inc.	Fire Protection	152,500	139,824	12,676
Fox Mechanical Co., Inc.	HVAC	1,507,959	1,408,736	99,223
Custom Fabricators, Inc.	Education Casework	369,239	213,402	155,837
Louis R. Polster Co.	Food Service	308,392	78,562	229,830
George J. Ingel & Co., Inc.	Water and Sewer Lines	<u>1,000,501</u>	<u>672,472</u>	<u>328,029</u>
		<u>\$ 12,093,150</u>	<u>\$ 9,413,297</u>	<u>\$ 2,679,853</u>

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 10 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Funding Policy. 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 District rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS' Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$195,723, \$321,672, and \$324,912, respectively. 47% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$102,809, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the paying fund.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2002 Comprehensive Annual Financial Report can be requested in writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of 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. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

Chapter 3307 of the Revised Code provides the statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System(Continued)

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2002, were 9.3 percent of covered payroll for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,294,978, \$1,396,740, and \$1,209,600, respectively. 86% has been contributed for fiscal years 2003 and 100% for fiscal years 2002 and 2001. \$185,714, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the paying fund.

C. Social Security

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

NOTE 11 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, and 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2002, the healthcare allocation was 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of recipients currently receiving health care benefits is approximately 50,000. For the District, the amount contributed to fund postemployment benefits during fiscal year 2003 was \$167,456.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

State Teachers Retirement System

The State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions equal to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, the amount contributed to fund postemployment benefits during fiscal year 2003 was \$159,665. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and there were 105,300 eligible benefit recipients.

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (260 days) are eligible for vacation time. Vacation leave is based upon length of service and position.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for employees is 300 days.

Retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Classified employees must have been employed by the District for a minimum of five consecutive years at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to fifty six days, plus one day for each year in which no more than three days of sick leave are used.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 13 – RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss and a rider for volunteers. The District maintains replacement cost insurance on buildings and contents. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation-Public Entity Risk Pool

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

The District provides life insurance and accidental death and dismemberment insurance to its employees through the Anthem Life Insurance Company. The District has elected to provide employee medical/surgical benefits through Anthem Blue Cross/Blue Shield, and dental through Core Source, Inc., all fully funded programs, except for dental which is self-insured.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Restated Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2003</u>	Amounts Due <u>in One Year</u>
General Obligation Bonds Payable:					
1990 School Improvement Bond, 5.75%, maturing December 2005	\$ 400,000	\$ 0	\$ (100,000)	\$ 300,000	100,000
1996 School Improvement Bond, 5.75%, maturing June 2007	685,000	0	(125,000)	560,000	130,000
2001 Construction Bond, 5.16%, maturing December 2028	<u>16,406,000</u>	<u>0</u>	<u>(310,181)</u>	<u>16,095,819</u>	<u>380,000</u>
Total General Obligation Bonds Payable	17,491,000	0	(535,181)	16,955,819	610,000
Compensated Absences Payable	<u>756,652</u>	<u>360,616</u>	<u>0</u>	<u>1,117,268</u>	<u>147,167</u>
	<u>\$ 18,247,652</u>	<u>\$ 360,616</u>	<u>\$ (535,181)</u>	<u>\$ 18,073,087</u>	<u>\$ 757,167</u>

The outstanding general obligation bonds relate to projects, for which bonds were issued, for the purpose of constructing, improving and equipping schools and improving the site thereof. Such bonds are direct obligations of the District for which the full faith and credit and resources are pledged and a payable from taxes levied on all taxable property of the District.

Compensated absences will be paid from the fund from which the employee's salaries are paid. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values.

The District's overall legal debt margin available was \$5,476,454 with an unvoted debt margin of \$256,767 at June 30, 2003.

The annual requirement to amortize all bonds outstanding as of June 30, 2003 is as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,	2004	\$ 610,000	\$ 787,589	\$ 1,397,589
	2005	650,000	759,570	1,409,570
	2006	675,000	729,487	1,404,487
	2007	595,000	701,296	1,296,296
	2008	470,000	835,395	1,305,395
	Thereafter	<u>13,955,819</u>	<u>10,268,742</u>	<u>24,224,561</u>
		<u>\$ 16,955,819</u>	<u>\$ 14,082,079</u>	<u>\$ 31,037,898</u>

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 15 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Educational Council (MEC) - MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

NOTE 16 - STATUTORY RESERVES

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

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

	Textbook	Capital Acquisition	Totals
	<u> </u>	<u> </u>	<u> </u>
Set-aside Beginning Balance	\$ (496,212)	\$ 0	\$ (496,212)
Current year set-aside requirements	373,987	373,987	747,974
Current year offsets		(475,686)	(475,686)
Qualifying disbursements	(589,113)	(361,470)	(950,583)
Set-aside Ending Balance	<u>\$ (711,338)</u>	<u>\$ (463,169)</u>	<u>(1,174,507)</u>
Set-aside Carryover Balance	<u>\$ (711,338)</u>	<u>\$ 0</u>	
Set-aside Reserve Balance	<u>\$ 0</u>	<u>\$ 0</u>	

The District had offsets and qualifying disbursements during the fiscal year that reduced the textbook and capital acquisition set-aside amounts below zero. This extra amount for textbooks may be used to reduce the set-aside requirements of future fiscal years. The extra amount for capital acquisitions may not be used to reduce set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

The District's attorney estimates that any potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

NOTE 18 - SCHOOL FUNDING DECISION

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

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

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

A. Changes in Accounting Principles

The District has implemented GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include entity-wide financial statements prepared on the 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 beginning net asset amount for governmental programs reflects the change in fund balance for the governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES (Continued)

B. Restatement of Fund Balances

In fiscal year 2003, the District's food service and uniform supplies enterprise funds and expendable trust fund were reclassified as special revenue funds, which are considered nonmajor funds for GASB 34, and one of the District's agency funds was reclassified as an internal service fund due to the nature of its operations. In addition, a prior period adjustment was recorded in the general fund to report an intergovernmental liability that had not previously been reported.

These restatements had the following effect on fund balance of major and nonmajor funds of the District as they were previously reported. The transition from the governmental fund balance sheet to the statement of net assets of the governmental activities is also presented.

	<u>General</u>	<u>Construction</u>	<u>Non-Major</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ (126,373)	\$ 14,844,177	\$ 380,344	\$ 15,098,148
GASB 34 Adjustment:				
Prior Period Adjustment	(716,225)	0	0	(716,225)
Fund Type Reclassification	<u>0</u>	<u>0</u>	<u>(4,861)</u>	<u>(4,861)</u>
Adjusted Fund Balance June 30, 2002	<u>\$ (842,598)</u>	<u>\$ 14,844,177</u>	<u>\$ 375,483</u>	\$ 14,377,062
GASB 34 Adjustments:				
Capital Assets				7,630,643
Long-Term Liabilities				(18,275,412)
Internal Service Fund				366,247
Governmental Activities Net Assets, June 30, 2002				<u>4,098,540</u>

**HAMILTON LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 20 – INTERFUND ASSETS/LIABILITIES

Individual fund interfund asset, liability and transfer balances at June 30, 2003 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund Receivables/Payables:		
	Internal Service Funds:	
General Fund	Workers Compensation	\$ 272,849
Special Revenue Funds:		
Food Service	Workers Compensation	7,845
Ohio Reads	Workers Compensation	114
Title VI-B	Workers Compensation	3,527
Title I	Workers Compensation	4,680
Title II	Workers Compensation	1,412
		<u>\$ 290,427</u>
Internal Service Funds:		
Retirement	General Fund	\$ 202,484
	Special Revenue Funds:	
Retirement	Food Service	20,825
Retirement	Title VI-B	1,307
Retirement	Title I	1,469
Retirement	Title II	594
		<u>\$ 226,679</u>
Interfund Transfers:		
<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 814,468
Special Revenue Funds:		
Food Service	101,808	
Support Fund	5,438	
Athletics	172,331	
Professional Development	10,800	
SchoolNet	2,191	
Ohio Reads	10,800	
Title II	2,121	
Title VI-B	132,381	
Title I	321,020	
Drug Free	5,240	
Goals	7,617	
Miscellaneous Federal	24,848	
Capital Projects Funds:		
Technology Equity	127	
Agency Funds:		
Student Activities	17,746	
Total Interfund Transfers	<u>\$ 814,468</u>	<u>\$ 814,468</u>

HAMILTON LOCAL SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05-PU	10.553	\$26,055	\$26,055
National School Lunch Program	LL-P4	10.555	198,843	198,843
Total U.S. Department of Agriculture			224,898	224,898
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1-S1	84.010	431,852	337,367
Special Education - Grants to States (IDEA Part B)	6B-SF	84.027	352,663	186,196
Safe and Drug-Free Schools and Communities	DR-S1	84.186	17,543	20,001
Goals 2000 - Improvement Grants	G2-S1	84.276	0	7,617
Eisenhower Professional Development Grant	MS-S1	84.281	496	4,408
Innovative Educational Program Strategies	C2-S1	84.298	12,873	46,100
Technology Literacy Challenge	TJ-S1	84.318	1,722	0
State Program Improvement Grants for Children with Disabilities	ST-S1	84.323	30,000	21,853
Comprehensive School Reform Demonstration	RF-S1	84.332	30,000	1,428
Class Size Reduction	CR-S1	84.340	50,090	13,621
School Renovation Grant	AT-SD3	84.352	11,413	5,966
Improving Teacher Quality	TR-S1	84.367	65,049	25,203
Total U.S. Department of Education			1,003,701	669,760
<u>U.S. Corporation for National and Community Service</u>				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America-School and Community Based Programs	SV-S2	94.004	3,000	0
Total U.S. Corporation for National and Community Service			3,000	0
Total Federal Financial Assistance			\$1,231,599	\$894,658

Note 1 - Noncash Federal Financial Assistance

During the year ended June 30, 2003, the District received \$63,538 and used \$62,963 in fair value inventory under the Nutrition Cluster - Food Distribution (Commodities) Program, Federal CFDA Number 10.550, that is not reported in the above schedule. At June 30, 2003 the District had \$10,396 of food commodities inventory.

Note 2 - Significant Accounting Policies

The District prepares its Schedule of Federal Awards Expenditures on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

**Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Education
Hamilton Local School District
1055 Rathmell Road
Columbus, Ohio 43207

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton Local School District (the District), as of and for the year ended June 30, 2003 and have issued our report thereon dated February 27, 2004. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated February 27, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We did note other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated February 27, 2004.

Board of Education
Hamilton Local School District
Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

This report is intended for the information and use of the Board of Education, management, 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.

J. L. Uhrig and Associates, I nc.

J. L. UHRIG AND ASSOCIATES, INC.

February 27, 2004

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133**

Board of Education
Hamilton Local School District
1055 Rathmell Road
Columbus, Ohio 43207

Compliance

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

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

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

Internal Control over Compliance

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

Board of Education
Hamilton Local School District
Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A -133

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

This report is intended for the information and use of the Board of Education, management, 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.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

February 27, 2004

HAMILTON LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. Type of Financial Statement Opinion	Unqualified
2. Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
3. Were there any other reportable internal control weaknesses reported at the financial statement level (GAGAS)?	No
4. Was there any material noncompliance reported at the financial statement level (GAGAS)?	Yes
5. Were there any material internal control weaknesses reported for major federal programs?	No
6. Were there any other reportable internal control weaknesses reported for major federal programs?	No
7. Type of Major Programs' Compliance Opinion	Unqualified
8. Are there any reportable findings under § .510?	No
9. Major Programs (list):	Nutrition Cluster CFDA #10.550, 10.553, 10.555
10. Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Other Programs
11. Low Risk Auditee?	Yes

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

Finding Number	2003-001
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Ohio Revised Code Section 5705.39 states that appropriations are to be limited by the estimated resources of a fund. The District had appropriations that exceeded estimated resources in the Construction Fund. This could lead to the District spending more money than they actually receive.

The District should monitor each fund so that appropriations do not exceed estimated resources.

HAMILTON LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

<i>Finding Number</i>	2003-002
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Ohio Revised Code Section 5705.40 states that no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. Additionally, Ohio Revised Code Section 5705.41(B) states no subdivision is to expend money unless it has been appropriated.

The District had expenditures that exceeded the appropriations at the fund level in the General Fund. This situation can lead to the District expending more than is actually available to spend in a fund.

The District must closely monitor each fund to determine that sufficient appropriations exist before any expenditures or encumbrances are made.

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards.

HAMILTON LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings
For the Year Ended June 30, 2003

Description	Status	Comments
<i>Government Auditing Standards:</i>		
1. ORC 5705.36 - obtaining an amended certificate to reduce estimated resources to actual revenues.	Not fully corrected	This is reported in the management letter. The Treasurer will monitor this situation more closely.
2. ORC 5705.40 - appropriations may not be reduced to a level below an amount sufficient to cover all expenditures and outstanding obligations.	Not fully corrected	The Treasurer will monitor this situation more closely.
3. ORC 5705.41(B) - money is not to be spent unless it has been appropriated.	Not fully corrected	The Treasurer will monitor this situation more closely.
4. ORC 5705.10 - money paid into a fund shall be used for the purposes for which said fund was established (i.e. - deficit cash fund balances).	Corrected	None



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HAMILTON LOCAL SCHOOL DISTRICT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 20, 2004**