



**DANBURY LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet – All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental and Similar Fiduciary Fund Types	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Comparison (Non-GAAP Budgetary Basis) – All Governmental Fund Types	10
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – All Proprietary and Similar Fiduciary Fund Types	12
Combined Statement of Cash Flows – All Proprietary and Similar Fiduciary Fund Types	13
Notes to General-Purpose Financial Statements	15
Schedule of Federal Awards Expenditures	39
Notes to the Schedule of Federal Awards Expenditures	40
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	41
Report of Independent Accountants on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	43
Schedule of Findings	45

This Page Intentionally Left Blank



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Danbury Local School District
Ottawa County
9451 East Harbor Road
Lakeside Marblehead, Ohio 43440-1300

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Danbury Local School District, Ottawa County, Ohio, (the District) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

As more fully described in note 3 to the general-purpose financial statements, certain changes in accounting policies and financial reporting practices were made in order to present the aforementioned general-purpose financial statements in conformity with generally accepted accounting principles. Such changes were adopted effective July 1, 1998 and to implement those changes, adjustments were made to restate fund balances and retained earnings as of that date.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2000 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.

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

Jim Petro
Auditor of State

March 20, 2000

This Page Intentionally Left Blank

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$1,799,584	\$109,969	\$780,019	\$94,164
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Investments				
Cash with fiscal agent		3,663		
Receivables (net of allowances of uncollectibles):				
Taxes - current and delinquent	3,677,026		512,429	72,000
Accounts	254			
Accrued interest	5,591			
Due from other governments		19,230		
Prepayments	7,352			
Interfund loan receivable	51,501			
Materials and supplies inventory				
Restricted assets:				
Equity in pooled cash and cash equivalents	64,458			
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	<u>\$5,605,766</u>	<u>\$132,862</u>	<u>\$1,292,448</u>	<u>\$166,164</u>

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$23,364	\$186	\$42,024	\$0	\$0	\$2,849,310
		27,135			27,135
		74,203			74,203
					3,663
					4,261,455
861					1,115
		218			5,809
4,382					23,612
					7,352
					51,501
2,039					2,039
					64,458
63,398			8,164,792		8,228,190
				871,981	871,981
				3,333,372	3,333,372
\$94,044	\$186	\$143,580	\$8,164,792	\$4,205,353	\$19,805,195

(Continued)

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999
(Continued)**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$31,998	\$3,809	\$0	\$460
Accrued wages and benefits	337,388	274		
Compensated absences payable	9,826			
Pension obligation payable	64,964			
Interfund loan payable		51,501		
Deferred revenue	3,065,708		420,467	62,846
Due to other governments	5,384			
Due to students				
General obligation bonds payable				
Total liabilities	<u>3,515,268</u>	<u>55,584</u>	<u>420,467</u>	<u>63,306</u>
Equity and other credits:				
Investment in fixed assets				
Contributed capital				
Retained earnings: unreserved				
Fund balances:				
Reserved for encumbrances	126,131	70,705		77,613
Reserved for prepayments	7,352			
Reserved for tax revenue unavailable for appropriation	583,231		89,956	7,860
Reserved for debt service			782,025	
Reserved for principal endowment				
Reserved for budget stabilization	64,458			
Designated for budget stabilization	235,542			
Unreserved-undesignated	<u>1,073,784</u>	<u>6,573</u>		<u>17,385</u>
Total equity and other credits	<u>2,090,498</u>	<u>77,278</u>	<u>871,981</u>	<u>102,858</u>
Total liabilities, equity and other credits	<u>\$5,605,766</u>	<u>\$132,862</u>	<u>\$1,292,448</u>	<u>\$166,164</u>

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$1,928	\$0	\$9,900	\$0	\$0	\$48,095
15,218					352,880
8,506				236,294	254,626
8,477				29,059	102,500
					51,501
633					3,549,654
					5,384
		26,989			26,989
				3,940,000	3,940,000
<u>34,762</u>	<u>0</u>	<u>36,889</u>	<u>0</u>	<u>4,205,353</u>	<u>8,331,629</u>
			8,164,792		8,164,792
18,641					18,641
40,641	186				40,827
		2,122			276,571
					7,352
					681,047
					782,025
		96,556			96,556
					64,458
					235,542
		8,013			1,105,755
<u>59,282</u>	<u>186</u>	<u>106,691</u>	<u>8,164,792</u>	<u>0</u>	<u>11,473,566</u>
<u>\$94,044</u>	<u>\$186</u>	<u>\$143,580</u>	<u>\$8,164,792</u>	<u>\$4,205,353</u>	<u>\$19,805,195</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
From local sources:		
Taxes	\$4,082,047	\$0
Earnings on investments	147,123	
Other local revenues	13,001	77,345
Other revenues		3,464
Intergovernmental - State	1,070,349	6,320
Intergovernmental - Federal		207,885
	<hr/>	<hr/>
Total revenue	5,312,520	295,014
	<hr/>	<hr/>
Expenditures:		
Current:		
Instruction:		
Regular	2,281,913	2,278
Special	207,112	47,663
Other	106,806	
Support services:		
Pupil	182,269	23,327
Instructional staff	211,858	284,659
Board of education	36,864	
Administration	415,428	2,751
Fiscal	167,094	
Operations and maintenance	547,538	
Pupil transportation	156,582	
Central		3,358
Community services		
Extracurricular activities	116,270	75,655
Facilities acquisition and construction		
Debt service:		
Principal retirement		
Interest and fiscal charges		
	<hr/>	<hr/>
Total expenditures	4,429,734	439,691
	<hr/>	<hr/>
Excess of revenues over (under) expenditures	882,786	(144,677)
	<hr/>	<hr/>
Other financing sources (uses):		
Operating transfers in	288	302
Operating transfers out	(51,573)	(534)
	<hr/>	<hr/>
Total other financing sources (uses)	(51,285)	(232)
	<hr/>	<hr/>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	831,501	(144,909)
	<hr/>	<hr/>
Fund balances, July 1 (restated)	1,258,997	222,187
	<hr/>	<hr/>
Fund balances, June 30	\$2,090,498	\$77,278
	<hr/> <hr/>	<hr/> <hr/>

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

<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$556,067	\$84,154	\$0	\$4,722,268
9,669			156,792
		8,915	99,261
			3,464
61,756	37,684		1,176,109
			207,885
<u>627,492</u>	<u>121,838</u>	<u>8,915</u>	<u>6,365,779</u>
			2,284,191
			254,775
			106,806
	15,075		220,671
		3,000	499,517
			36,864
			418,179
10,713	1,939		179,746
			547,538
			156,582
			3,358
		6,016	6,016
			191,925
	163,609		163,609
130,000			130,000
219,538			219,538
<u>360,251</u>	<u>180,623</u>	<u>9,016</u>	<u>5,419,315</u>
<u>267,241</u>	<u>(58,785)</u>	<u>(101)</u>	<u>946,464</u>
	337		927
			(52,107)
<u>0</u>	<u>337</u>	<u>0</u>	<u>(51,180)</u>
267,241	(58,448)	(101)	895,284
604,740	161,306	10,236	2,257,466
<u>\$871,981</u>	<u>\$102,858</u>	<u>\$10,135</u>	<u>\$3,152,750</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30,1999**

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$3,938,108	\$3,950,497	\$12,389	\$0	\$0	\$0
Earnings on investments	145,597	147,474	1,877			
Other local revenues	21,924	9,736	(12,188)	74,912	75,063	151
Other revenue				90	90	
Intergovernmental - State	1,056,727	1,070,349	13,622	9,674	9,694	20
Intergovernmental - Federal				182,166	182,533	367
Total revenues	5,162,356	5,178,056	15,700	266,842	267,380	538
Expenditures:						
Current:						
Instruction:						
Regular	2,392,298	2,293,320	98,978	1,320	1,140	180
Special	239,932	213,936	25,996	47,667	47,667	
Other	154,000	118,845	35,155			
Support services:						
Pupil	211,810	184,129	27,681	23,311	23,311	
Instructional staff	241,413	211,088	30,325	347,403	346,468	935
Board of Education	61,433	47,650	13,783			
Administration	472,926	431,285	41,641	13,975	2,929	11,046
Fiscal	186,763	170,659	16,104			
Operations and maintenance	655,993	621,384	34,609			
Pupil transportation	177,061	157,447	19,614			
Central				3,339	3,339	
Extracurricular activities				86,431	81,246	5,185
Facilities acquisition and construction	120,318	116,390	3,928			
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	4,913,947	4,566,133	347,814	523,446	506,100	17,346
Excess of revenues over (under) expenditures	248,409	611,923	363,514	(256,604)	(238,720)	17,884
Other financing sources (uses):						
Refund of prior year's expenditures	3,865	3,915	50			
Operating transfers in	312,270	300,288	(11,982)	2,667	2,672	5
Operating transfers (out)	(400,132)	(351,573)	48,559	(534)	(534)	
Advances in				51,396	51,500	104
Advances (out)	(65,000)	(51,501)	13,499			
Total other financing sources (uses)	(148,997)	(98,871)	50,126	53,529	53,638	109
Excess of revenues and other sources over (under) expenditures and other (uses)	99,412	513,052	413,640	(203,075)	(185,082)	17,993
Fund balances, July 1	1,173,612	1,173,612		186,994	186,994	
Prior year encumbrances appropriated	17,077	17,077		33,543	33,543	
Fund balances, June 30	\$1,290,101	\$1,703,741	\$413,640	\$17,462	\$35,455	\$17,993

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

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$543,217	\$538,469	(\$4,748)	\$82,148	\$81,311	(\$837)	\$4,563,473	\$4,570,277	\$6,804
9,661	9,669	8				155,258	157,143	1,885
						96,836	84,799	(12,037)
						90	90	
61,708	61,756	48	37,799	37,685	(114)	1,165,908	1,179,484	13,576
						182,166	182,533	367
614,586	609,894	(4,692)	119,947	118,996	(951)	6,163,731	6,174,326	10,595
						2,393,618	2,294,460	99,158
						287,599	261,603	25,996
						154,000	118,845	35,155
			17,451	15,075	2,376	252,572	222,515	30,057
						588,816	557,556	31,260
						61,433	47,650	13,783
			2		2	486,903	434,214	52,689
12,000	10,713	1,287	3,000	1,939	1,061	201,763	183,311	18,452
						655,993	621,384	34,609
			16,369	15,156	1,213	193,430	172,603	20,827
						3,339	3,339	
						86,431	81,246	5,185
			230,234	226,066	4,168	350,552	342,456	8,096
130,000	130,000					130,000	130,000	
250,000	219,538	30,462				250,000	219,538	30,462
392,000	360,251	31,749	267,056	258,236	8,820	6,096,449	5,690,720	405,729
222,586	249,643	27,057	(147,109)	(139,240)	7,869	67,282	483,606	416,324
						3,865	3,915	50
			338	337	(1)	315,275	303,297	(11,978)
(16,007)		16,007				(416,673)	(352,107)	64,566
						51,396	51,500	104
						(65,000)	(51,501)	13,499
(16,007)	0	16,007	338	337	(1)	(111,137)	(44,896)	66,241
206,579	249,643	43,064	(146,771)	(138,903)	7,868	(43,855)	438,710	482,565
530,376	530,376		102,354	102,354		1,993,336	1,993,336	
			52,641	52,641		103,261	103,261	
\$736,955	\$780,019	\$43,064	\$8,224	\$16,092	\$7,868	\$2,052,742	\$2,535,307	\$482,565

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Tuition and fees	\$29,243	\$0	\$0	\$29,243
Sales/charges for services	128,731	1,599		130,330
Interest revenue			5,085	5,085
Other operating revenues	491			491
Total operating revenues	158,465	1,599	5,085	165,149
Operating expenses:				
Personal services	130,662			130,662
Contract services	7,263	1,413		8,676
Materials and supplies	99,742			99,742
Depreciation	4,390			4,390
Other operating expenses	214		5,501	5,715
Total operating expenses	242,271	1,413	5,501	249,185
Operating income (loss)	(83,806)	186	(416)	(84,036)
Nonoperating revenues:				
Operating grants	35,247			35,247
Federal commodities	2,924			2,924
Other nonoperating revenues	207			207
Total nonoperating revenues	38,378	0	0	38,378
Net income (loss) before operating transfers	(45,428)	186	(416)	(45,658)
Operating transfers in	51,441			51,441
Operating transfers (out)		(261)		(261)
Net income (loss)	6,013	(75)	(416)	5,522
Retained earnings/fund balance, July 1 (restated)	34,628	261	96,972	131,861
Retained earnings/fund balance, June 30	\$40,641	\$186	\$96,556	\$137,383

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

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$28,382	\$1,599	\$0	\$29,981
Cash received from sales/service charges	128,731			128,731
Cash received from other operations	491			491
Cash payments for personal services	(138,923)			(138,923)
Cash payments for contract services	(6,535)	(1,413)		(7,948)
Cash payments for materials and supplies	(83,292)			(83,292)
Cash payments for other expenses	(214)		(3,751)	(3,965)
Net cash provided (used) by operating activities	(71,360)	186	(3,751)	(74,925)
Cash flows from noncapital financing activities:				
Cash received from operating grants	35,473			35,473
Transfers in from other funds	51,441			51,441
Transfers out to other funds		(261)		(261)
Cash received from other noncapital financing activities	207			207
Net cash provided (used) by noncapital financing activities	87,121	(261)		86,860
Cash flows from investing activities:				
Interest received			5,612	5,612
Net increase (decrease) in cash and cash equivalents	15,761	(75)	1,861	17,547
Cash and cash equivalents at beginning of year	7,603	261	25,274	33,138
Cash and cash equivalents at end of year	\$23,364	\$186	\$27,135	\$50,685
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	(\$83,806)	\$186	(\$416)	(\$84,036)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	4,390			4,390
Federal donated commodities	2,924			2,924
Interest reported as operating income			(5,085)	(5,085)
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	1,291			1,291
Increase in accounts receivable	(861)			(861)
Increase in accounts payable	1,928		1,750	3,678
Increase in accrued wages and benefits	1,118			1,118
Increase in compensated absences payable	1,163			1,163
Increase in pension obligation payable	606			606
Decrease in deferred revenue	(113)			(113)
Net cash provided (used) by operating activities	(\$71,360)	\$186	(\$3,751)	(\$74,925)

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

This Page Intentionally Left Blank

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Danbury 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 organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District currently operates one elementary school, one middle school and one comprehensive high school. The District employs 30 non-certified and 54 certified (including administrative) full-time and part-time employees to provide services to approximately 597 students in grades K through 12 and various community groups. The District ranks 581st of the 612 school districts in Ohio and is the fourth largest of the seven districts in Ottawa County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District:

Jointly Governed Organizations

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty-one public school districts

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

EHOVE Joint Vocational School

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District.

Public Entity Risk Pools

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

The San-Ott School Employees Welfare Benefit Association

The District participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Council is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

1. Governmental Funds

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 funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of the State of Ohio.

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

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

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

2. Proprietary Funds

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's proprietary fund types:

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

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

3. Fiduciary Funds

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 a nonexpendable trust fund, an expendable trust fund and an agency fund. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. The expendable trust fund is accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

operations. The agency fund is presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3.C. for agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

4. Account Groups

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

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

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a 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 (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund 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. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes (to the extent they are intended to finance the current fiscal year), interest, intergovernmental grants (to the extent they are intended to finance the current fiscal year) and accounts (student fees and tuition). Current property taxes measurable as of June 30, 1999, and which are intended to finance fiscal 2000 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 1999 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 1999.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. Supplemental appropriations were legally enacted by the Board during fiscal 1999, however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 12 discloses encumbrances outstanding for the enterprise funds at fiscal year end.

E. Cash and Investments

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

During fiscal year 1999, investments were limited to Federal Agency Securities, nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 1999 amounted to \$147,123, which includes \$53,347 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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.

An analysis of the Treasurer's investment account at year end is provided in Note 4.

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and equipment	15-20

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Teacher Development

ODNR Local Aquatic Life Grant

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Raising the Bar Grant
Management Information Systems
Title VI-B
Title I
Title VI
Drug Free Grant

Capital Projects Funds

Permanent Improvement
SchoolNet
Power Up

Proprietary Funds

Food Distribution Program

Reimbursable Grants

Proprietary Funds

National School Lunch Program
National School Milk Program

Grants and entitlements amounted to approximately 22% of the District's operating revenue during the 1999 fiscal year.

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal interest. GAAP requires the allocation of the debt liability among the general and the general long-term obligations account group, with principal and interest payments on matured general long-term debt being reported in the debt service fund. To comply with the GAAP reporting requirements, the District's debt retirement fund has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. Fund Balance Reserves/Designations

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources. Designated fund balance is not legally restricted by State statute. Fund balances are reserved for encumbrances, budget stabilization, debt service, principal endowment, prepayments and tax revenue unavailable for appropriation. Fund balance is designated for budget stabilization to the extent that monies have been set-aside above the minimum legal requirement (See Note 17). The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

L. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

M. Interfund Transactions

During the course of normal operations, the District may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 1999.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 1999.

An analysis of interfund transactions is presented in Note 5.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by the State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. A fund balance reserve has also been established. See Note 17 for detail of statutory reserves.

O. Estimates

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

P. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period end, since prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

Q. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Financial Statement Presentation and Basis of Accounting

For the year ended June 30, 1999, the District has presented for the first time GPFS by fund type and account group in accordance with GAAP. In conjunction with this presentation, the District has

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

converted its governmental funds and expendable trust fund to the modified accrual basis of accounting and its proprietary funds and nonexpendable trust fund to the accrual basis of accounting. This conversion required that certain adjustments be recorded to the June 30, 1998 fund balances/retained earnings as previously reported to reflect the prior years' effect of adopting these new accounting principles. The restatements to the opening fund balances are as follows:

<u>Fund Type</u>	Balance as Previously Stated at <u>June 30, 1998</u>	<u>Adjustments</u>	Restated Balance at <u>July 1, 1998</u>
General	\$1,190,689	\$ 68,308	\$1,258,997
Special Revenue	216,676	5,511	222,187
Debt Service	530,376	74,364	604,740
Capital Projects	154,995	6,311	161,306
Expendable Trust	13,686	(3,450)	10,236
Enterprise	7,602	27,026	34,628
Internal Service	261	-	261
Nonexpendable Trust	100,221	(3,249)	96,972
Agency	25,131	(25,131)	0

B. Deficit Fund Balances/Retained Earnings

Fund balances at June 30, 1999 included the following individual fund deficits:

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Title VI-B	\$ (46)
Title I	(31,976)
 <u>Enterprise Funds</u>	
Adult Education	(2,582)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end.

The deficit fund balances in the Title VI-B and Title I special revenue funds are caused by the reporting of an "advance in" as a liability rather than as an "other financing source". These deficits will be eliminated as resources are provided for the repayment of the interfund loans.

The deficit retained earnings in the Adult Education enterprise fund is due to accruing wage, benefit and retirement obligations in accordance with GAAP. This deficit will be funded by user charges and other subsidies not recognized at June 30.

C. Agency Fund

The following are accruals for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Assets

Accounts receivable \$ 20

Liabilities

Accounts payable \$609

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories:

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.

Cash on hand: At fiscal year end, the District had \$1,670 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with fiscal agent: The District had \$3,663 in cash held by the Erie-Ottawa-Huron Educational Service Center which is included on the combined balance sheet as "Cash with Fiscal Agent". The money is held in a pooled amount which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3.

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

Deposits: At year end, the carrying amount of the District's deposits, including non-negotiable certificates of deposit, was \$232,645 and the bank balance, including non-negotiable certificates of deposit, was \$292,042. Of the bank balance:

1. \$147,434 was covered by federal depository insurance.
2. \$144,608 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money has been followed, non compliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or securities held by the District.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department, but not in the District's name. Investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Reported Amount	Fair Value
Federal Agency Securities	<u>\$ 74,203</u>	\$ 74,203	\$ 74,203
Investment in STAR Ohio		2,706,588	2,706,588
Total		<u>\$ 2,780,791</u>	<u>\$ 2,780,791</u>

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

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

	Cash and Cash Equivalents/ Deposits	Investments
Per GASB Statement No. 9	\$ 2,944,566	\$ 74,203
Investments of the cash management pool:		
Investment in STAR Ohio	(2,706,588)	5,706,588
Cash with fiscal agent	(3,663)	
Cash on hand	<u>(1,670)</u>	
Per GASB Statement No. 3	<u>\$ 232,645</u>	<u>\$ 5,780,791</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District's operating transfers for fiscal year 1999:

Fund	Transfers In	Transfers (Out)
General Fund	\$ 288	\$ (51,573)
Special Revenue Funds:		
Public School Support	302	(534)
Capital Projects Funds:		
Permanent Improvement	337	

(Continued)

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Fund	Transfers In	Transfers (Out)
(Continued)		
Enterprise Funds		
Food Service	30,000	
Adult Education	21,441	
Internal Service Fund:		
Internal Service Rotary		(261)
Totals	\$ 52,368	\$ (52,368)

2. Interfund balances at June 30, 1999, consist of the following individual interfund loans receivable and payable:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 51,501	\$ 0
Special Revenue Funds:		
Title VI-B		19,230
Title VI		31,816
District Managed Student Activities		450
Drug-Free		5
Totals	\$ 51,501	\$ 51,501

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies which is assessed 50% of market and railroads which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 1998 taxes were collected was \$190,679,599. Agricultural/residential and public utility/minerals real estate represented 75.3% or \$143,546,520 of this total; Commercial & industrial real estate represented 15.7% or \$30,041,930 of this total, public utility tangible represented 5.3% or \$10,047,140 of this total and general tangible property represented 3.7% or \$7,044,009 of this total. The voted general tax rate at the fiscal year ended June 30, 1999 was \$43.40 per \$1,000.00 of assessed valuation for operations, \$3.10 per \$1,000.00 of assessed valuation for debt service and \$2.00 per \$1,000.00 of assessed valuation for permanent improvements.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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.

The District receives property taxes from Ottawa County. The County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$681,047 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue but not received by the district prior to June 30, 1999, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999, consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, accrued interest, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. 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 fiscal year guarantee of Federal funds.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$3,677,026
Accrued interest	5,591
<u>Special Revenue Funds</u>	
Due from other governments	19,230
<u>Capital Projects Funds</u>	
Taxes - current and delinquent	72,000
<u>Debt Service Fund</u>	
Taxes - current and delinquent	512,429
<u>Enterprise Funds</u>	
Due from other governments	4,382

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 8 - FIXED ASSETS

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

	Balance at <u>7/1/98</u>	Increase	Decrease	Balance at <u>6/30/99</u>
Land/improvements	\$ 391,730	\$ 71,000		\$ 462,730
Buildings/improvements	6,626,084	32,413		6,658,497
Furniture/equipment	424,719	268,790		693,509
Vehicles	<u>350,056</u>			<u>350,056</u>
Total General Fixed Assets	<u>\$ 7,792,589</u>	<u>\$ 372,203</u>	<u>\$ 0</u>	<u>\$ 8,164,792</u>

There was no significant construction in progress at June 30, 1999.

A summary of the proprietary fixed assets at June 30, 1999 follows:

Furniture and equipment	\$ 109,861
Less: Accumulated Depreciation	<u>46,463</u>
Net Fixed Assets	<u>\$ 63,398</u>

NOTE 9 - CHANGES IN CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended June 30, 1999 are summarized by source as follows:

	Food Service
Contributed capital, July 1, 1998	\$ 18,641
Current contributions	
Contributed capital, June 30, 1999	<u>\$ 18,641</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A.** All current obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current 3.1 mill bonded debt tax levy.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

The following is a description of the District's bonds outstanding as of June 30, 1999:

Purpose	Interest Rate	Issue Date	Maturity Date	Bonds Outstanding at 7/1/98	Retired in Fiscal 1999	Bonds Outstanding at 6/30/98
School Improvement Bonds	5.48%	7/1/93	12/1/16	<u>\$4,070,000</u>	<u>\$ (130,000)</u>	<u>\$3,940,000</u>

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

Year Ending June 30,	Principal on Bonds	Interest on Bonds	Total
2000	\$ 135,000	\$ 210,263	\$ 345,263
2001	145,000	202,420	347,420
2002	150,000	195,928	345,928
2003	160,000	188,833	348,833
2004	165,000	181,111	346,111
2005 - 2009	975,000	763,788	1,738,788
2010 - 2014	1,265,000	453,272	1,718,272
2015 - 2017	<u>945,000</u>	<u>81,784</u>	<u>1,026,784</u>
Total	<u>\$3,940,000</u>	<u>\$2,277,399</u>	<u>\$6,217,399</u>

C. During the year ended June 30, 1999, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Compensated absences	\$ 167,186	\$ 69,108	\$ 0	\$ 236,294
Pension obligation payable	26,888	29,059	(26,888)	29,059
Bonds payable	<u>4,070,000</u>	<u> </u>	<u>(130,000)</u>	<u>3,940,000</u>
Total	<u>\$4,264,074</u>	<u>\$ 98,167</u>	<u>\$(156,888)</u>	<u>\$4,205,353</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 1999 are a voted debt margin of \$9,851,169 (including available funds of \$871,982) and an unvoted debt margin of \$143,547.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	Harcum-Hyre		
Each occurrence		\$ 1,000,000	\$ 0
Aggregate		\$ 5,000,000	\$ 0
Property	Utica Insurance Co.	\$13,122,784	\$ 1,000
Fleet:	Nationwide/		
Comprehensive	Harcum-Hyre	\$ 1,000,000	\$ 1,000
Collision		\$ 1,000,000	\$ 1,000
Umbrella liability:	Harcum-Hyre	\$ 2,000,000	\$ 0

Settled claims have not exceeded this coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

B. OSBA Group Workers Compensation Rating Program

For fiscal year 1999, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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 & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Group Health Insurance

The District provides employee health care benefits through membership in the San-Ott School Employees Welfare Benefit Association, a public entity risk management pool. Monthly payments are

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

made to the Association for health, prescription, dental and vision insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120 percent of the prior year's aggregate claims and any specific claims in excess of \$100,000.

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and adult education. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 1999.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Adult Education</u>	<u>Total</u>
Operating revenue	\$129,222	\$19,168	\$10,075	\$158,465
Operating expenses before depreciation	198,772	12,348	26,761	237,881
Depreciation	4,390	---	---	4,390
Operating income (loss)	(73,940)	6,820	(16,686)	(83,806)
Operating grants	35,247	---	---	35,247
Federal commodities	2,924	---	---	2,924
Net income (loss)	(5,564)	6,820	4,757	6,013
Net working capital	(11,223)	12,916	1,291	2,984
Total assets	74,617	14,116	5,311	94,044
Total liabilities	25,669	1,200	7,893	34,762
Contributed capital	18,641	---	---	18,641
Total equity	48,948	12,916	(2,582)	59,282
Encumbrances at 6/30/99	1,388	10,613	140	12,141

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board (SERB). SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes general-purpose financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered salary; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$104,364, \$97,879, and \$95,128, respectively. Of the contribution requirement, 57.8 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$45,294, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. 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 administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes general-purpose financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Based on available information at 6/30/98, plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered salary; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$377,610, \$360,986, and \$349,146, respectively. Of the contribution requirement, 86.2 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$52,132, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, The Board allocated

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$215,606 during fiscal 1999.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998 (the latest information available). For the year ended June 30, 1998 (the latest information available), net health care costs paid by STRS were \$219.224 million and STRS had 91,999 eligible benefit recipients.

For SERS, 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111.9 million and the target level was \$139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million and approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$41,564 during the 1999 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types 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 that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$513,052	\$(185,082)	\$249,643	\$(138,903)
Net adjustment for revenue accruals	134,464	27,634	17,598	2,842
Net adjustment for expenditure accruals	(23,902)	(8,104)	---	(460)
Net adjustment for other financing sources (uses)	47,586	(53,870)	---	---
Encumbrances (budget basis)	<u>160,301</u>	<u>74,513</u>	<u>---</u>	<u>78,073</u>
GAAP basis	<u>\$831,501</u>	<u>\$(144,909)</u>	<u>\$267,241</u>	<u>\$ (58,448)</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 1999.

B. Litigation

The District is not currently a party to any legal proceedings.

C. School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received \$632,951 of school foundation support for its general fund.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 1999, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 1998	\$ 0	\$ 0	\$ 25,887
Current year set-aside requirement	77,142	77,142	38,571
Current year offsets	---	(74,146)	---
Qualifying disbursements	<u>(92,487)</u>	<u>(9,525)</u>	<u>---</u>
Total	<u>\$ (15,345)</u>	<u>\$ (6,529)</u>	<u>\$ 64,458</u>
Cash balance carried forward to FY 2000	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 64,458</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

During fiscal 1999, the District has elected to set-aside \$235,542 in excess of the minimum legal requirement for budget stabilization. This amount is reported as designated fund balance on the combined balance sheet.

A schedule of the restricted assets at June 30, 1999 follows:

Amount restricted for budget stabilization	<u>\$64,458</u>
Total restricted assets	<u>\$64,458</u>

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number	Receipts	Non-Cash Receipts	Disburse- ments	Non-Cash Disburse- ments
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Food Distribution	10.550		\$ 0	\$ 2,580	\$ 0	\$ 2,924
<i>Child Nutrition Cluster:</i>						
National School Lunch	10.555	03-PU-98	2,781		2,781	
		03-PU-99	7,962		7,962	
		04-PU-98	5,356		5,356	
		04-PU-99	17,090		17,090	
Total - National School Lunch			33,189	0	33,189	0
Special Milk Program	10.556	02-PU-98	236		236	
		02-PU-99	608		608	
Total - Special Milk Program			844	0	844	0
Total Child Nutrition Cluster			34,033		34,033	
Total Department of Agriculture			34,033	2,580	34,033	2,924
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Special Education Grants to States (IDEA Part B)	84.027	6B-SF-98P	2,990		22,220	
Grants to Local Educational Agencies (ESEA Title I)	84.010	C1-S1-98			2,216	
		C1-S1-99	13,635		45,451	
Total - Title I			13,635		47,667	
Drug Free Schools	84.186	DR-S1-98			209	
		DR-S1-99	1,000		350	
Total - Drug Free Schools Program			1,000	0	559	0
Innovative Educational Program Strategy	84.298	C2-S1-99	2,407			
Technology Literacy Challenge Fund Grants	84.318	TF-S2-98P	162,500		247,939	
E-Rate Grant	84.XXX		458		458	
Total Department of Education			182,990		318,843	
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 217,023	\$ 2,580	\$ 352,876	\$ 2,924

The accompanying notes are an integral part of this schedule.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 1999, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Danbury Local School District
Ottawa County
9451 East Harbor Road
Lakeside Marblehead, Ohio 43440-1300

To the Board of Education:

We have audited the financial statements of the Danbury Local School District, Ottawa County, Ohio, (the District) as of and for the year ended June 30, 1999, and have issued our report thereon dated March 20, 2000, wherein we noted that the District adopted generally accepted accounting principles effective July 1, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated March 20, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated March 20, 2000.

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

Jim Petro
Auditor of State

March 20, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Danbury Local School District
Ottawa County
9451 East Harbor Road
Lakeside Marblehead, Ohio 43440-1300

To the Board of Education:

Compliance

We have audited the compliance of the Danbury Local School District, Ottawa County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 1999. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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, 1999. We noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 20, 2000.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to the management of the District in a separate letter dated March 20, 2000.

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

Jim Petro
Auditor of State

March 20, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Technology Literacy Challenge Fund Grants - CFDA #84.318
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

DANBURY LOCAL SCHOOL DISTRICT

OTTAWA 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 4, 2000**