

***Audit Report
First Year of the Biennium***

July 1, 1997 through June 30, 1998

***LUCAS LOCAL SCHOOL
DISTRICT - RICHLAND COUNTY***



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DISTRICT - RICHLAND COUNTY***



*Certified Public Accountants
& Business Consultants*

LUCAS LOCAL SCHOOL DISTRICT - RICHLAND COUNTY

AUDIT REPORT
June 30, 1998

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**Lucas Local School District - Richland County
Elected Officials
as of June 30, 1998**

Elected Officials	Title	Term of Office	Surety	Amount	Period
<u>Board of Education</u>					
Mary Stotts	President	01/01/96 - 12/31/99	(A)	\$ 20,000	1/1/97 - 1/1/00
Michael Fanello	Vice President	01/01/96 - 12/31/99	None		
Linda Zickefoose	Member	01/01/98 - 12/31/01	None		
R. Steve Grover	Member	01/01/98 - 12/31/01	None		
John Trumpower	Member	01/01/98 - 12/31/01	None		

Statutory Legal Counsel

James J. Mayer
Richland County Prosecuting Attorney
38 South Park Street
Mansfield, Ohio 44902

(A) Nationwide Mutual Insurance Company

**Lucas Local School District - Richland County
Administrative Personnel
as of June 30, 1998**

Title	Term of Office or Contract Period	Surety	Amount	Period
<u>Treasurer</u>				
Julie Henke	Organizational Meeting 1996 to Organizational Meeting January 2000	(A)	\$25,000	(B)
<u>Superintendent</u>				
Robert Delane	8/1/96 - 7/31/01	(A)	\$20,000	1/1/97 - 1/1/00

(A) Nationwide Mutual Insurance Company

(B) Covers term of office

Lucas Local School District – Richland County
Index of Funds
As of June 30, 1998

GOVERNMENTAL FUND TYPES:

General Fund

Special Revenue Fund Types:

- Public School Support Fund
- Other Grant Fund
- Venture Capital Grant
- District Managed Student Activity Fund
- Professional Development Fund
- Talented and Gifted Grant
- Management Information Systems Fund
- Title VI-B Special Education: Assistance to States for
Handicapped Children Fund
- Chapter I – Financial Assistance to Meet Special Educational Needs
Of Disadvantaged Children Fund
- Chapter II – Consolidation of Federal Programs for Elementary and
Secondary Education Fund

Debt Service Fund Types:

- Bond Retirement Fund

Capital Projects Fund Types:

- Permanent Improvement Fund
- School Net Plus Fund
- Emergency Repairs Grant

PROPRIETARY FUND TYPE:

Enterprise Fund Types:

- Food Service Fund
- Uniform School Supplies Fund
- Farm Service Fund

Internal Service Fund Type:

- Special Rotary Fund
- Self-Insurance Fund

FIDUCIARY FUND TYPES:

Trust and Agency Fund Types:

Expendable Trust:

- Special Trust Fund

Non Expendable Trust:

- Endowment Fund

Agency:

- District Agency
- Student Managed Activity Fund



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Education
Lucas Local School District
Lucas, Ohio 44843

We have reviewed the Independent Auditor's Report of the Lucas Local School District, Richland County, prepared by Moore Stephens Apple, for the audit period July 1, 1997 through June 30, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written over a large, stylized "X" or checkmark.

JIM PETRO
Auditor of State

January 7, 2000

MOORE STEPHENS APPLE

1540 West Market Street
Akron, Ohio 44313
Telephone: 330/867-7350
Fax: 330/867-8866

Certified Public Accountants

29550 Detroit Road
Cleveland, Ohio 44145
Telephone: 440/871-8288
Fax: 440/871-6452

Report of Independent Auditors

Board of Education
Lucas Local School District
Lucas, Ohio 44843

We have audited the accompanying general purpose financial statements of the Lucas Local School District as of and for the year ended June 30, 1998. These general purpose financial statements are the responsibility of the Lucas Local School 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 Lucas Local School District as of June 30, 1998 and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 1999 on our consideration of the Lucas Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

We did not audit the supplemental information dealing with Year 2000 as listed in the table of contents and therefore express no opinion thereon.

Moore Stephens Apple

Akron, Ohio
December 2, 1999



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General Purpose Financial Statements

LUCAS LOCAL SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1998

	Governmental Fund Types			Proprietary Fund Types			Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Obligations			
ASSETS AND OTHER DEBITS												
ASSETS:												
Equity in pooled cash and cash equivalents	\$641,331	\$50,009	\$91,036	\$43,044	\$32,166	\$239,146	\$29,682					\$1,126,414
Equity in pooled cash and cash equivalents - nonexpendable trust fund							14,490					14,490
Receivables (net of allowances of uncollectibles):												
Taxes - current & delinquent	1,670,990		68,907		343							1,739,897
Accounts	4,536	250		4,525								9,654
Accrued interest	1,929											1,929
Due from other governments	13,771											13,771
Prepayments	14,257	156			80							14,493
Materials and supplies inventory	18,923				4,660							23,583
Restricted assets:												
Equity in pooled cash and cash equivalents	19,060											19,060
Property, plant and equipment (net of accumulated depreciation where applicable)					18,350				\$4,093,558			4,111,908
OTHER DEBITS:												
Amount available in debt service fund										\$92,648		92,648
Amount to be provided for retirement of general long-term obligations										407,108		407,108
Total assets and other debits	\$2,384,797	\$50,415	\$159,943	\$47,569	\$55,599	\$239,146	\$44,172	\$4,093,558	\$499,756			\$7,574,955

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

--Continued

(Continued)

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 1998

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		Account Groups			
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Obligations	Total		
										Memorandum	Only	
LIABILITIES, EQUITY AND OTHER CREDITS												
LIABILITIES:												
Accounts payable	\$17,759	\$685			\$204						\$18,648	
Accrued wages and benefits	213,980	279			4,262						218,521	
Compensated absences payable	9,176				2,396				\$121,253		132,825	
Pension obligation payable	49,742	294			8,895				44,718		103,649	
Claims payable						\$22,016					22,016	
Deferred revenue	1,632,043		\$67,295		2,835	20,362		\$24,364			1,722,535	
Due to students											24,364	
General obligation bonds payable									280,000		280,000	
Energy conservation note payable									53,785		53,785	
Total liabilities	1,922,700	1,258	67,295		18,592	42,378		24,364	499,756		2,576,343	
EQUITY AND OTHER CREDITS:												
Investment in general fixed assets									\$4,093,558		4,093,558	
Contributed capital					1,500						1,500	
Retained earnings: unreserved					35,507	196,768					232,275	
Fund balances:												
Reserved for encumbrances	113,245	7,558		\$38,116							158,919	
Reserved for supplies inventory	18,923										18,923	
Reserved for prepayments	14,257	156									14,413	
Reserved for debt service			91,076								91,076	
Reserved for tax revenue unavailable for appropriation	38,133		1,572					14,490			39,705	
Reserved for principal endowment	19,060										14,490	
Reserved for budget set-aside	258,479	41,443		9,453				5,318			19,060	
Unreserved-designated											314,693	
Total equity and other credits	462,097	49,157	92,648	47,569	37,007	196,768		19,808	4,093,558		4,998,612	
Total liabilities, equity and other credits	\$2,384,797	\$50,415	\$159,943	\$47,569	\$55,599	\$239,146		\$44,172	\$4,093,558		\$7,574,955	

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 1998

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$1,548,560		\$61,912			\$1,610,472
Tuition	57,726					57,726
Earnings on investments	59,716	\$611		\$444	\$264	61,035
Other local revenues	30,930	73,947		4,525	644	110,046
Other revenue		9,184				9,184
Intergovernmental - State	1,536,499	42,033	5,398	67,707		1,651,637
Intergovernmental - Federal	1,308	49,909				51,217
Total revenue	3,234,739	175,684	67,310	72,676	908	3,551,317
Expenditures:						
Current:						
Instruction:						
Regular	1,282,929	24,353		73,378		1,380,660
Special	179,121	45,409				224,530
Vocational	106,034				1,200	107,234
Other	7					7
Support services:						
Pupil	57,920	7,013				64,933
Instructional staff	150,818	26,261			383	177,462
Board of education	8,637					8,637
Administration	409,115	25,328				434,443
Fiscal	146,062		2,557			148,619
Operations and maintenance	309,771	7,000				316,771
Pupil transportation	213,932					213,932
Central	9,399	5,960				15,359
Community services	5,189					5,189
Extracurricular activities	75,423	53,015				128,438
Facilities services				53,785		53,785
Debt service:						
Principal retirement			70,000			70,000
Interest and fiscal charges			18,510			18,510
Total expenditures	2,954,357	194,339	91,067	127,163	1,583	3,368,509
Excess (deficiency) of revenues over (under) expenditures	280,382	(18,655)	(23,757)	(54,487)	(675)	182,808
Other financing sources:						
Proceeds of notes				53,785		53,785
Proceeds from sale of assets	6,521					6,521
Total other financing sources	6,521			53,785		60,306
Excess (deficiency) of revenues and other financing sources over (under) expenditures	286,903	(18,655)	(23,757)	(702)	(675)	243,114
Fund balance, July 1	178,169	67,812	116,405	48,271	5,993	416,650
Decrease in reserve for inventory	(2,975)					(2,975)
Fund balance, June 30	\$462,097	\$49,157	\$92,648	\$47,569	\$5,318	\$656,789

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 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, 1998

	General			Special Revenue			Debt Service			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:															
From local sources:															
Taxes:															
Tuition	39,000	\$1,552,096	\$104,602				\$58,860	\$62,071	\$3,211				\$1,506,354	\$1,614,167	\$107,813
Earnings on investments	52,000	54,292	15,292										39,600	54,292	15,292
Other local revenues	7,200	58,745	6,745		\$611	\$111					\$445		52,957	59,801	6,844
Other revenue		11,898	4,698		72,731	71,698							79,931	85,596	5,665
Intergovernmental - State		1,575,256	(52,528)		9,185	(1)							9,185	9,184	(1)
Intergovernmental - Federal		1,308	1,308		42,034	(1)		6,000	5,398	(602)			1,692,771	1,637,865	(54,906)
Total revenues	3,120,950	3,201,067	80,117	174,360	175,435	1,075	64,860	67,469	2,609	69,933	68,151	(1,787)	3,430,108	3,512,122	82,014
Expenditures:															
Current:															
Instruction:															
Regular	1,274,328	1,273,818	510	30,703	24,468	5,835							1,469,132	1,398,239	70,893
Special	199,295	199,257	38	45,809	45,458	351							245,104	244,715	389
Vocational	106,197	105,894	303										106,197	105,894	303
Other	559	9	550										559	9	550
Support services:															
Pupil	70,547	70,399	148	7,308	7,013	295							77,855	77,412	443
Instructional staff	164,341	162,857	1,484	32,297	32,123	175							196,638	194,979	1,659
Board of Education	11,859	10,326	1,533										11,859	10,326	1,533
Administration	412,489	411,846	643	52,205	26,199	26,006							464,694	438,045	26,649
Fiscal	147,543	147,034	509										150,857	149,590	1,267
Operations and maintenance	317,894	312,344	5,550	7,000	7,000	0							326,157	319,344	6,813
Pupil transportation	282,312	276,162	6,150										282,312	276,162	6,150
Central	14,710	14,707	3	8,156	6,263	1,893							34,407	32,511	1,896
Community services	5,875	5,688	187										5,875	5,688	187
Extracurricular activities	74,722	74,721	1	55,883	53,504	2,379							130,605	128,225	2,380
Facilities acquisition & construction													53,785	53,785	0
Debt service:															
Principal retirement							70,000	70,000	0				70,000	70,000	0
Interest and fiscal charges							18,511	18,510	1				18,511	18,510	1
Total expenditures	3,082,671	3,065,062	17,609	238,961	202,027	36,934	91,825	91,066	759	231,090	165,279	65,811	3,644,547	3,523,434	121,113
Excess (deficiency) of revenues over (under) expenditures	38,279	136,005	97,726	(64,601)	(26,592)	38,009	(26,965)	(21,597)	3,368	(161,152)	(97,128)	64,024	(214,439)	(11,312)	203,127
Other financing sources (uses):															
Refund of prior year's expenditures	0	19,060	19,060										0	19,060	19,060
Proceeds of sale of fixed assets	0	6,521	6,521										0	6,521	6,521
Proceeds from sale of notes													55,195	53,785	(1,410)
Total other financing sources (uses)	0	25,581	25,581										55,195	79,366	24,171
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	38,279	161,586	123,307	(64,601)	(26,592)	38,009	(26,965)	(21,597)	3,368	(105,957)	(43,343)	62,614	(159,244)	68,054	227,298
Fund balance, July 1	347,726	347,726	0	66,132	66,132	0	114,634	114,634	0	49,535	49,535	0	578,027	578,027	0
Prior year encumbrances appropriated	21,507	21,507	0	1,038	1,038	0							22,545	22,545	0
Fund balance, June 30	\$407,512	\$530,819	\$123,307	\$2,569	\$40,578	\$38,009	\$87,669	\$91,037	\$3,368	(\$56,422)	\$6,192	\$62,614	\$41,328	\$668,626	\$727,298

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1998

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Tuition and fees	\$18,700			\$18,700
Sales/charges for services	115,248	\$242,214		357,462
Investment earnings			\$772	772
Total operating revenues	133,948	242,214	772	376,934
Operating expenses:				
Personal services	73,882			73,882
Contract services	2,000	62,127		64,127
Materials and supplies	90,514			90,514
Depreciation	3,963			3,963
Claims expense		147,895		147,895
Other operating expenses	1,193	1,655		2,848
Total operating expenses	171,552	211,677		383,229
Operating income (loss)	(37,604)	30,537	772	(6,295)
Nonoperating revenues:				
Operating grants	23,332			23,332
Federal commodities	9,650			9,650
Interest revenue	1,147			1,147
Other nonoperating revenues		760		760
Total nonoperating revenues	34,129	760		34,889
Net income (loss)	(3,475)	31,297	772	28,594
Retained earnings/fund balance (restated) at July 1	38,982	165,471	13,718	218,171
Retained earnings/fund balance at June 30	<u>\$35,507</u>	<u>\$196,768</u>	<u>\$14,490</u>	<u>\$246,765</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1998

	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	\$18,596			\$18,596
Cash received from sales/service charges	115,248	\$243,639		358,887
Cash payments for personal services	(71,886)			(71,886)
Cash payments for contract services	(18,336)	(62,127)		(80,463)
Cash payments supplies and materials	(63,575)			(63,575)
Cash payments for claims expenses		(145,660)		(145,660)
Cash payments for other expenses	(1,116)			(1,116)
Net cash provided by (used in) operating activities	(21,069)	35,852		14,783
Cash flows from noncapital financing activities:				
Cash received from operating grants	27,000			27,000
Cash received from other noncapital financing activities		760		760
Net cash provided by noncapital financing activities	27,000	760		27,760
Cash flows from investing activities:				
Interest received	1,147		\$772	1,919
Net cash provided by investing activities	1,147		772	1,919
Net increase in cash and cash equivalents	7,078	36,612	772	44,462
Cash and cash equivalents at beginning of year	25,088	202,534	13,718	241,340
Cash and cash equivalents at end of year	<u>\$32,166</u>	<u>\$239,146</u>	<u>\$14,490</u>	<u>\$285,802</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	(\$37,604)	\$30,537	\$772	(\$6,295)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,963			3,963
Federal donated commodities	9,650			9,650
Interest reported as operating income			(772)	(772)
Changes in assets and liabilities:				
Decrease in supplies inventory	435			435
Increase in accounts receivable	(104)			(104)
Decrease in prepayments	72			72
Decrease in accounts payable	(6)			(6)
Increase in accrued wages & benefits	1,227			1,227
Increase in compensated absences payable	2,396			2,396
Decrease in pension obligation payable	(1,267)			(1,267)
Increase in claims payable		3,890		3,890
Increase in deferred revenue	169	1,425		1,594
Net cash provided by (used in) operating activities	<u>(\$21,069)</u>	<u>\$35,852</u>	<u>\$0</u>	<u>\$14,783</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Lucas Local School District ("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 ranks as the 579th largest by total enrollment among the 611 districts in the State. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the district's four instructional/support facilities staffed by 33 classified and 44 certificated full-time teaching personnel who provide services to 640 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements 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:

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)*JOINT VENTURE WITHOUT EQUITY INTEREST:*North Central Ohio Computer Cooperative (NCOCC)

NCOCC is a joint venture among 21 school districts and 3 county boards of education. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NCOCC based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contribution. NCOCC is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in NCOCC as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the treasurer for the Pioneer Career and Technology JVSD, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

*JOINTLY GOVERNED ORGANIZATION:*Ohio School Boards Association Workers' Compensation Group Rating Program

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 Board's Association (OSBA) WCGRP was established through the OSBA as a group purchasing pool.

*PUBLIC ENTITY RISK POOL:*Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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 FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)*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 or the nonexpendable trust fund) 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 or the nonexpendable trust fund).

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 are 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 Funds - The internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)*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 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 for an analysis of the agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

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 or the nonexpendable trust fund.

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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

- 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, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 1998, and which are intended to finance fiscal 1999 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.

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 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 1998 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 Richland County Budget Commission for tax rate determination.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Prior to March 15, 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 1998.
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.
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. All supplemental appropriations were legally enacted by the Board during fiscal 1998 in the following amounts:

	Increase	Decrease
General Fund	\$ 36,430	
Special Revenue Funds	90,843	
Enterprise Funds		\$ (1,368)
Internal Service Funds		(1,066)
Trust Funds		(700)
Agency Fund	13,249	

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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" on the combined balance sheet.

During fiscal year 1998, investments were limited to investments in the State Asset Treasury Reserve of Ohio (STAROhio). Investments in STAROhio are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1998.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio Statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the District Managed Activities special revenue fund, the expendable trust fund, the nonexpendable trust fund, the Food Service enterprise fund, and the Permanent Improvement capital projects fund. The following funds were credited with more interest revenue than would have been received based upon their share of the District's investments during fiscal 1998:

	Interest Actually Received	Interest Based Upon Share of Investments	Interest Assigned By Other Funds
General Fund	\$ 59,716	\$ 31,946	\$ 27,770
<u>Special Revenue Fund</u>			
District Managed Activities	611	378	233

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 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 for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds consist of donated food, purchased food, food service paper and janitorial supplies and 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 Depreciation1. *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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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:

Asset	Life (years)
Furniture, fixtures and equipment	5-20

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
 State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems
 Title VI-B
 Local Professional Development
 Title I
 Title II
 Textbook Materials/Subsidy

Capital Projects Funds

SchoolNet Plus

Proprietary Funds

Food Distribution Program

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)Reimbursable GrantsGeneral Fund

Driver Education Reimbursement
School Bus Purchase Reimbursement
Vocational Education Travel/Salary

Proprietary Funds

National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 44% of the District's operating revenue during the 1998 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.

J. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants, or contributions from developers, customers, or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**K. 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.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, supplies inventory, principal endowment, prepayments, budget stabilization, and tax revenue unavailable for appropriation. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

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. The District made no operating transfers in fiscal year 1998.
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 no short-term interfund loans receivable or payable at June 30, 1998.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 1998.

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 State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. During fiscal year 1998, the District received a \$19,060 refund from the Bureau of Workers' Compensation which State statute required to be included in this reserve. This refund is presented as "other local revenue" in the accompanying financial statements. A fund balance reserve has also been established.

O. Estimates

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

P. Prepaid

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, because prepayment is 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 general purpose financial statements 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 generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

1. Change in Accounting Principle

GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," was implemented during fiscal 1998. In accordance with this statement, investments held at June 30, 1998 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 1997.

2. Prior Period Adjustments

The District overstated the estimated liability for claims payable at June 30, 1997. The effect of this adjustment on retained earnings as previously reported at June 30, 1997 is as follows:

	<u>Internal Service</u>
Retained earnings as previously reported	\$ 153,878
Restatement for overstated claims payable	<u>11,593</u>
Restated retained earnings at June 30, 1997	<u>\$ 165,471</u>

3. Deficit Fund Balances

Fund balance at June 30, 1998 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Title I	\$ (103)
Local Professional Development	(8)

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 I and the Local Professional Development special revenue funds are caused by accruing wage, benefit and pension obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

4. Agency Funds

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

<u>ASSETS</u>	
Accounts Receivable	\$ 1,411
<u>LIABILITIES</u>	
Accrued wages and benefits	717
Accounts payable	163
Deferred revenue	500
Pension obligation payable	26

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

Protection of the 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - Continued

Interim monies may be invested or deposited 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;
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 (STAROhio);
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 interests 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - Continued

Cash on hand: At fiscal year end, the District had \$50 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."

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 was \$217,690 and the bank balance was \$270,699. Of the bank balance:

Category 1 - \$170,699 was covered by federal depository insurance or by collateral held by the District in the District's name.

Category 3 - \$100,000 was uninsured and unregistered because it was secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District 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 entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. 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.

The District had an investment of \$942,224 in STAROhio. STAROhio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - Continued

A reconciliation between the classifications of pooled cash and cash equivalents 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
GASB Statement 9	\$ 1,159,964	\$ 0
Investments:		
STAROhio	(942,224)	942,224
Cash on hand	(50)	
GASB Statement 3	\$ 217,690	\$ 942,224

NOTE 5 - 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 November 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 1997 taxes were collected was \$45,072,620. Agricultural/residential and public utility/minerals real estate represented 60.30% or \$27,179,970 of this total; commercial & industrial real estate represented 2.72% or \$1,223,380 of this total, public utility tangible represented 34.40% or \$15,504,490 of this total and general tangible property represented 2.58% or \$1,164,780 of this total. The voted general tax rate at the fiscal year ended June 30, 1998 was \$45.30 per \$1,000.00 of assessed valuation for operations and \$1.50 per \$1,000.00 of assessed valuation for debt retirement.

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 Richland and Ashland Counties. The respective County Treasurers collect property taxes on behalf of the District. The respective County Auditors periodically remit 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 5 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1998. 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. The amount available as an advance, and recorded as revenue, at June 30, 1998, was \$38,133 in the general fund and \$1,572 in the debt service fund.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 1998, 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 6 - RECEIVABLES

Receivables at June 30, 1998 consisted of taxes, accounts, accrued interest and all grants and entitlements intended to finance fiscal year 1998. Receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs and the current 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	\$ 1,670,990
Accounts	4,536
Accrued Interest	1,929
<u>Debt Service Fund</u>	
Taxes - current and delinquent	68,907
<u>Capital Projects Fund</u>	
Accounts	4,525

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 7 - FIXED ASSETS

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

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
Land / improvements	\$ 48,875	\$ 0	\$ 0	\$ 48,875
Buildings / improvements	2,991,131	0	0	2,991,131
Furniture / equipment	507,050	120,558	1,635	625,973
Vehicles	451,302	0	23,723	427,579
Total	<u>\$ 3,998,358</u>	<u>\$ 120,558</u>	<u>\$ 25,358</u>	<u>\$ 4,093,558</u>

There was no significant construction in progress at June 30, 1998.

A summary of the proprietary fixed assets at June 30, 1998 follows:

Furniture and equipment	\$ 79,028
Less: accumulated depreciation	<u>(60,678)</u>
Net fixed assets	<u>\$ 18,350</u>

NOTE 8 - CHANGES IN CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended June 30, 1998 are summarized by source as follows:

	<u>Food Service</u>
Contributed capital, July 1, 1997	\$ 1,500
Current contributions	<u>0</u>
Contributed capital, June 30, 1998	<u>\$ 1,500</u>

NOTE 9 - LONG-TERM OBLIGATIONS

The District has two long-term debt issues outstanding at June 30, 1998. These debt issues represent a general obligation bond and an energy conservation note.

During fiscal year 1998, the District issued a \$53,785 energy conservation note to provide for energy improvements to various District buildings. The primary source of repayment of this note is through energy savings as a result of the improvements. This note bears an interest rate of 4.75% and matures on September 1, 2007.

Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. Unmatured obligations are accounted for in the general long-term obligations account group.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 9 - LONG-TERM OBLIGATIONS - Continued

The following is a description of the District's general obligation bond and energy conservation note outstanding as of June 30, 1998:

	Interest Rate	Maturity Date	Outstanding July 1, 1997	Issued In 1998	Retired In 1998	Outstanding June 30, 1998
General obligation bond payable	5.50%	12/01/01	\$350,000	\$ ---	\$(70,000)	\$280,000
Energy conservation note payable	4.75%	09/01/07	0	53,785	---	53,785
			<u>\$350,000</u>	<u>\$53,785</u>	<u>\$(70,000)</u>	<u>\$333,785</u>

B. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bond and the energy conservation note:

Fiscal Year Ending	Principal on Bond/Note	Interest on Bond/Note	Total
1999	\$ 75,379	\$ 15,937	\$ 91,316
2000	75,379	11,828	87,207
2001	75,379	7,719	83,098
2002	75,379	3,610	78,989
2003	5,379	1,426	6,805
2004 - 2008	26,890	3,244	30,134
Total	<u>\$ 333,785</u>	<u>\$ 43,764</u>	<u>\$ 377,549</u>

C. During the year ended June 30, 1998, the following changes occurred in 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 pension obligations will be paid from the fund in which the employee is paid.

	Balance July 1, 1997	Increase	Decrease	Balance June 30, 1998
General obligation bond	\$ 350,000	\$ 0	\$(70,000)	\$ 280,000
Compensated absences	132,392	0	(11,139)	121,253
Pension obligation payable	46,054	44,718	(46,054)	44,718
Energy conservation note	0	53,785	0	53,785
Total	<u>\$ 528,446</u>	<u>\$ 98,503</u>	<u>\$(127,193)</u>	<u>\$ 499,756</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 9 - LONG-TERM OBLIGATIONS - Continued**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, 1998 are a voted debt margin of \$3,869,184 (including available funds of \$92,648) and an unvoted debt margin of \$45,073.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given fifteen to twenty days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited. The only exception is the Superintendent who can carry over up to ten days at the end of his contract, and the Treasurer who can carry over up to five days at the end of her contract. Teachers do not earn vacation time.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 220 days. Upon retirement, payment is made to employees with ten or more years of service at the District for twenty-five percent of the total sick leave accumulation with a maximum of 40 days payment.

NOTE 11 - RISK MANAGEMENT**1. Property, Fleet, and Liability Insurance**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1998, the District retained property insurance coverage in the blanket amount of \$12,800,160 with 90% coinsurance, replacement cost endorsement and a \$1,000 deductible. Boiler and machinery coverage is also provided with blanket coverage in the amount of \$5,757,190 with a \$1,000 deductible. The District also has inland marine floaters in the amount of \$83,288 with a \$100 deductible for coverage of audio visual equipment, two way radios, tractors, musical instruments and uniforms.

Vehicles are covered by a policy through Nationwide/Wausau Insurance Companies which provides for a \$50 deductible for comprehensive and a \$250 deductible for collision. Vehicle liability has a \$2,000,000 combined single limit of liability.

Nationwide/Wausau Insurance Companies also provide general liability coverage with a \$2,000,000 single occurrence limit and an aggregate of \$5,000,000 with no deductible.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 11 - RISK MANAGEMENT - (Continued)

2. Employee Dishonesty Bonds

The District carries employee dishonesty bonds for the Treasurer, Superintendent, and Board President in the amount of \$20,000. Also an employee blanket dishonesty bond in the amount of \$5,000 is provided to cover all other employees of the District.

3. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The worker's 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 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.

4. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees through Anthem Benefit Administrators Inc. in the following amounts: full-time employees \$25,000, administrators \$50,000, and part-time grandfathered employees \$10,000.

The District has elected to provide a comprehensive medical benefits package to the employees through a self-insured program. The District maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. This package provides a comprehensive medical plan with a \$275 single and \$375 family deductible (\$100 single and \$200 family deductibles for administrators). A third party administrator, Anthem Benefits Administrators Inc., located in Columbus, Ohio, reviews all claims for the medical plan which are then paid by the District. The District purchases stop-loss coverage of \$20,000 per individual and an aggregate limit of \$208,212 from Cox Insurance Group. The total monthly premium paid into the internal service fund for the medical plan is \$158 for single coverage and \$390 for family coverage

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 11 - RISK MANAGEMENT - (Continued)

which is paid out of the same fund that pays the salary for the employee. The District's amounts are capped by negotiated union contracts and cannot be increased except throughout negotiations. The employee monthly portion of the premium is \$16 for single coverage and \$39 for family coverage which is withheld from their biweekly payroll. The employees are responsible for payment of all claim amounts in excess of the employer capped amounts.

The District provides dental coverage for its employees on a self-insured basis through Anthem Benefits Administrators Inc. The total monthly premium is \$28 for single and family coverage. This premium is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employees are responsible for payment of all claim amounts in excess of the employer capped amounts.

The above employee portions of premiums for medical and dental insurance are for full-time employees. Grandfathered part-time employees also have medical and dental insurance benefits.

The claims liability of \$22,016 reported in the fund at June 30, 1998, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Of Year	Claims	Payments	End of Year
1998	\$ 18,126	\$ 147,895	\$ (144,005)	\$ 22,016
1997	\$ 18,757	\$ 103,846	\$ (104,477)	\$ 18,126

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and farm operations. 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, 1998.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Rotary Farm</u>	<u>Total</u>
Operating revenue	\$113,043	\$18,700	\$2,205	\$133,948
Operating expenses before depreciation	150,101	16,684	804	167,589
Depreciation	3,963	---	---	3,963
Operating income (loss)	(41,021)	2,016	1,401	(37,604)
Operating grants	23,332	---	---	23,332
Net income (loss)	(6,892)	2,016	1,401	(3,475)
Net working capital	8,201	8,458	1,998	18,657
Total assets	44,984	8,458	2,157	55,599
Total liabilities	18,433	---	159	18,592
Contributed capital	1,500	---	---	1,500
Total equity	26,551	8,458	1,998	37,007
Encumbrances at 06/30/98	100	---	345	445

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. 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 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 FINANCIAL STATEMENTS

June 30, 1998

NOTE 13 - DEFINED BENEFIT PENSION PLANS - Continued**A. School Employees Retirement System - continued**

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1998; 9.71 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board 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, 1998, 1997, and 1996 were \$77,578, \$97,143, and \$83,868, respectively; 36.1 percent has been contributed for fiscal year 1998 and 100 percent for the fiscal years 1997 and 1996. \$49,626, representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds and the general long-term obligations account group.

2. 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 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, 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, 1998, 1997, and 1996 were \$214,012, \$222,363, and \$188,676, respectively; 83.4 percent has been contributed for fiscal year 1998 and 100 percent for the fiscal years 1997 and 1996. \$35,524, representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 14 - POSTEMPLOYMENT BENEFITS - Continued

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. Through June 30, 1997, the Board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the District, this amount equaled \$53,526 during fiscal 1998.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$1.860 billion at June 30, 1997. For the year ended June 30, 1997, net health care costs paid by STRS were \$192.077 million and STRS had 88,718 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 4.21 percent of covered payroll, an increase from 3.5 percent for fiscal year 1997. 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 1998, 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, 1997, were \$97.429 million and the target level was \$121.8 million. At June 30, 1997 SERS had net assets available for payment of health care benefits of \$146.4 million. SERS has approximately 48,200 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$40,723 during the 1998 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);

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - Continued

- (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:

	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 Project</u>
Budget basis	\$161,586	\$(26,592)	\$(23,597)	\$(43,343)
Net adjustment for revenue accruals	33,672	249	(159)	4,525
Net adjustment for expenditure accruals	(18,867)	(478)	(1)	---
Net adjustment for other financing sources (uses)	(19,060)	---	---	---
Encumbrances (budget basis)	<u>129,572</u>	<u>8,166</u>	<u>---</u>	<u>38,116</u>
GAAP basis	<u>\$286,903</u>	<u>\$(18,655)</u>	<u>\$(23,757)</u>	<u>\$ (702)</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, 1998.

B. Litigation

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1998

NOTE 16 - CONTINGENCIES - (Continued)**C. State 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 the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the District. During the fiscal year ended June 30, 1998, the District received \$1,456,220 of total school foundation support.

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 is currently reviewing the new laws to determine whether they are constitutional under the "thorough and efficient" clause of the Ohio Constitution. According to the Ohio attorney general's office, a decision is expected from the Perry County Court sometime in early calendar 1999; either party then has the right to appeal that decision directly to the Ohio Supreme Court. Any decision made by the Court of Common Pleas is likely to be appealed.

As of the date of these general purpose financial statements, the District estimates that it will receive \$166,660 more in State funding under this Program.

NOTE 17 - GROUP PURCHASING POOL

The District is a member of the Metropolitan Educational Council (MEC) purchasing group. The following items are purchased through this group discount program; custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases.

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION (unaudited)

June 30, 1998**YEAR 2000 ISSUE**

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations as early as fiscal year 1999.

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform School Payroll System software for its payroll and employee benefits and the State of Ohio Equipment Inventory System for its fixed assets accounting. The State is responsible for remediating these systems. The District has been assured by the State of Ohio that all software programs currently used by the District will be Year 2000 compliant by December 31, 1998.

The State of Ohio distributes a substantial sum of money to the District in the form of basic state aid "school foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

The District currently is assessing the changes needed in the power systems. Systems may have to be remediated, tested, and validated. The District has hired an employee who will be responsible for the assessment, remediation, purchases, and testing and validation. The target date for implementation is expected to be the summer of 1999. As this systems will be remediated by in-house staff, there are no outside contracted amounts for this project at June 30, 1998.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be year 2000 ready.

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards

Board of Education
Lucas Local School District
Lucas, Ohio 44843

We have audited the general purpose financial statements of the Lucas Local School District (the District), as of and for the year ended June 30, 1998 and have issued our report thereon dated December 2, 1999. 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 Lucas Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lucas Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of *the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses*. A material weakness is a condition in which the design or operation of one or more of the internal 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.



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However, we noted a certain matter involving the internal control over financial reporting that we have reported to management of the District, in a separate letter dated December 2, 1999.

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

Moore Stephens Apple

Akron, Ohio
December 2, 1999

***Audit Report
Second Year of the
Biennium***

July 1, 1998 through June 30, 1999

***LUCAS LOCAL SCHOOL
DISTRICT - RICHLAND COUNTY***



*Certified Public Accountants
& Business Consultants*

***Audit Report
Second Year of the
Biennium***

July 1, 1998 through June 30, 1999

***UCAS LOCAL SCHOOL
DISTRICT - RICHLAND COUNTY***



*Certified Public Accountants
& Business Consultants*

LUCAS LOCAL SCHOOL DISTRICT - RICHLAND COUNTY

AUDIT REPORT
June 30, 1999

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**Lucas Local School District - Richland County
Elected Officials
as of June 30, 1999**

Elected Officials	Title	Term of Office	Surety	Amount	Period
<u>Board of Education</u>					
Mary Stotts	President	01/01/96 - 12/31/99	(A)	\$ 20,000	1/1/97 - 1/1/00
Michael Fanello	Vice President	01/01/96 - 12/31/99	None		
Linda Zickefoose	Member	01/01/98 - 12/31/01	None		
R. Steve Grover	Member	01/01/98 - 12/31/01	None		
John Trumpower	Member	01/01/98 - 12/31/01	None		

Statutory Legal Counsel

James J. Mayer
 Richland County Prosecuting Attorney
 38 South Park Street
 Mansfield, Ohio 44902

(A) Nationwide Mutual Insurance Company

**Lucas Local School District - Richland County
Administrative Personnel
as of June 30, 1999**

Title	Term of Office or Contract Period	Surety	Amount	Period
<u>Treasurer</u>				
Julie Henke	Organizational Meeting 1996 to Organizational Meeting January 2000	(A)	\$25,000	(B)
<u>Superintendent</u>				
Robert Delane	8/1/96 - 7/31/01	(A)	\$20,000	1/1/97 - 1/1/00

(A) Nationwide Mutual Insurance Company

(B) Covers term of office

Lucas Local School District – Richland County
Index of Funds
As of June 30, 1999

GOVERNMENTAL FUND TYPES:

General Fund

Special Revenue Fund Types:

Public School Support Fund
Other Grant Fund
Venture Capital Grant
District Managed Student Activity Fund
Professional Development Fund
Talented and Gifted Grant
Management Information Systems Fund
Title VI-B Special Education: Assistance to States for
Handicapped Children Fund
Chapter I – Financial Assistance to Meet Special Educational Needs
Of Disadvantaged Children Fund
Chapter II – Consolidation of Federal Programs for Elementary and
Secondary Education Fund

Debt Service Fund Types:

Bond Retirement Fund

Capital Projects Fund Types:

Permanent Improvement Fund
School Net Plus Fund
Emergency Repairs Grant

PROPRIETARY FUND TYPE:

Enterprise Fund Types:

Food Service Fund
Uniform School Supplies Fund
Farm Service Fund

Internal Service Fund Type:

Special Rotary Fund
Self-Insurance Fund

FIDUCIARY FUND TYPES:

Trust and Agency Fund Types:

Expendable Trust:

Special Trust Fund

Non Expendable Trust:

Endowment Fund

Agency:

District Agency
Student Managed Activity Fund

MOORE STEPHENS APPLE

1540 West Market Street
Akron, Ohio 44313
Telephone: 330/867-7350
Fax: 330/867-8866

Certified Public Accountants

29550 Detroit Road
Cleveland, Ohio 44145
Telephone: 440/871-8288
Fax: 440/871-6452

Report of Independent Auditors

Board of Education
Lucas Local School District
Lucas, Ohio 44843

We have audited the accompanying general purpose financial statements of the Lucas Local School District as of and for the year ended June 30, 1999. These general purpose financial statements are the responsibility of the Lucas Local School 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 Lucas Local School District as of June 30, 1999 and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 1999 on our consideration of the Lucas Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

We did not audit the supplemental information dealing with Year 2000 as listed in the table of contents and therefore express no opinion thereon.

Moore Stephens Apple

Akron, Ohio
December 2, 1999



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General Purpose Financial Statements

LUCAS LOCAL SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1999

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General	Long-Term		
								Assets	Obligations		
ASSETS AND OTHER DEBITS											
ASSETS:											
Equity in pooled cash and cash equivalents	\$744,244	\$64,254	\$73,302	\$60,700	\$25,199	\$185,321	\$37,314				\$1,190,334
Equity in pooled cash and cash equivalents - nonexpendable trust fund							25,438				25,438
Investments	100,000										100,000
Receivables (net of allowances of uncollectibles):											
Taxes - current & delinquent	1,760,783		71,532		898						1,832,315
Accounts	207	105									1,210
Accrued interest	2,765										2,765
Due from other governments	4,534				3,558						8,112
Prepayments	14,642	167			77						14,886
Materials and supplies inventory	22,112				4,935						27,047
Restricted assets:											
Equity in pooled cash and cash equivalents	45,681										45,681
Property, plant and equipment (net of accumulated depreciation where applicable)					12,711			\$4,200,953			4,213,664
OTHER DEBITS:											
Amount available in debt service fund									\$88,408		88,408
Amount to be provided for retirement of general long-term obligations									369,485		369,485
Total assets and other debits	\$2,694,988	\$64,526	\$144,834	\$60,700	\$47,378	\$185,321	\$62,752	\$4,200,953	\$457,893		\$7,919,345

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

--Continued

(Continued)

**LUCAS LOCAL SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
 JUNE 30, 1999**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
LIABILITIES, EQUITY AND OTHER CREDITS										
LIABILITIES:										
Accounts payable	\$3,467	\$3,493			\$283					\$7,243
Accrued wages and benefits	232,413	1,065		\$2	3,346					236,826
Compensated absences payable	12,790				2,230			\$156,325		171,345
Pension obligation payable	52,354	234			10,776			43,162		106,526
Claims payable						\$89,014				89,014
Deferred revenue	1,389,335	2,460	\$56,426		2,339	22,433				1,472,993
Due to students							\$32,985			32,985
General obligation bonds payable								210,000		210,000
Energy conservation note payable								48,406		48,406
Total liabilities	1,690,359	7,252	56,426	2	18,974	111,447	32,985	457,893		2,375,338
EQUITY AND OTHER CREDITS:										
Investment in general fixed assets								\$4,200,953		4,200,953
Contributed capital					1,500					1,500
Retained earnings: unreserved					26,904	73,874				100,778
Fund balances:										
Reserved for encumbrances	29,329	6,296	1,500	\$4,251						41,376
Reserved for materials and supplies inventory	22,112									22,112
Reserved for prepayments	14,642	167								14,809
Reserved for debt service			71,876							71,876
Reserved for tax revenue unavailable for appropriation	370,022		15,032							385,054
Reserved for principal endowment							25,438			25,438
Reserved for budget stabilization	45,681									45,681
Unreserved-undesignated	522,843	50,811		56,447			4,329			634,430
Total equity and other credits	1,004,629	57,274	88,408	60,698	28,404	73,874	29,767	4,200,953		5,544,007
Total liabilities, equity and other credits	\$2,694,988	\$64,526	\$144,834	\$60,700	\$47,378	\$185,321	\$62,752	\$4,200,953	\$457,893	\$7,919,345

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$1,866,457		\$82,305			\$1,948,762
Tuition	24,897					24,897
Earnings on investments	67,832	\$451		\$196	\$198	68,677
Other local revenues	26,550	81,734			667	108,951
Other revenue		1,313				1,313
Intergovernmental - State	1,865,518	48,757	5,505	75,942		1,995,722
Intergovernmental - Federal	838	64,728				65,566
Total revenue	3,852,092	196,983	87,810	76,138	865	4,213,888
Expenditures:						
Current:						
Instruction:						
Regular	1,330,877	20,899		50,744		1,402,520
Special	254,435	37,341				291,776
Vocational	95,335				1,201	96,536
Other	40,347					40,347
Support services:						
Pupil	112,249	6,123				118,372
Instructional staff	157,846	34,889		726	653	194,114
Board of education	11,715					11,715
Administration	441,514	25,444				466,958
Fiscal	127,597		735			128,332
Operations and maintenance	371,900	1,263				373,163
Pupil transportation	277,946					277,946
Central	12,449	6,545		11,539		30,533
Community services	5,393					5,393
Extracurricular activities	76,146	56,362				132,508
Debt service:						
Principal retirement			75,379			75,379
Interest and fiscal charges			15,936			15,936
Total expenditures	3,315,749	188,866	92,050	63,009	1,854	3,661,528
Excess (deficiency) of revenues over (under) expenditures	536,343	8,117	(4,240)	13,129	(989)	552,360
Other financing sources:						
Proceeds from sale of fixed assets	3,000					3,000
Total other financing sources	3,000					3,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	539,343	8,117	(4,240)	13,129	(989)	555,360
Fund balances, July 1	462,097	49,157	92,648	47,569	5,318	656,789
Increase in reserve for inventory	3,189					3,189
Fund balances, June 30	\$1,004,629	\$57,274	\$88,408	\$60,698	\$4,329	\$1,215,338

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 1999

	General			Special Revenue			Debt Service			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:															
From local sources:															
Taxes.....	\$1,504,700	\$1,533,529	\$28,829				\$71,315	\$68,811	(\$2,504)				\$1,576,015	\$1,602,340	\$26,325
Tuition.....	45,000	24,331	(16,669)										45,000	28,331	(16,669)
Earnings on investments.....	56,700	66,996	10,296	\$600	\$451	(\$149)							57,650	67,644	9,984
Other local revenues.....	10,400	27,222	16,822	82,567	84,139	1,572	4,165	4,525	360				97,132	115,886	18,754
Other revenues.....				1,313	1,313	0							1,313	1,313	0
Intergovernmental - State.....	1,582,200	1,874,735	292,535	48,760	48,796	(4)							1,706,502	2,004,938	298,436
Intergovernmental - Federal.....	1,000	838	(162)	59,426	59,425	(1)							60,436	60,263	(173)
Total revenues.....	3,200,000	3,531,651	331,651	192,665	194,084	1,418	71,315	74,316	3,001				3,544,448	3,880,715	336,267
Expenditures:															
Current:															
Instruction:															
Regular.....	1,326,193	1,324,366	1,827	18,617	17,379	1,238							1,454,052	1,396,739	57,313
Special.....	272,787	255,788	16,999	40,917	37,342	3,575							313,704	293,130	20,574
Vocational.....	98,750	96,897	1,853										98,750	96,897	1,853
Other.....	41,644	40,347	1,297										41,644	40,347	1,297
Support services:															
Pupil.....	108,274	107,765	509	7,750	6,156	1,594							116,024	113,821	2,103
Instructional staff.....	169,845	168,620	1,225	48,497	37,897	10,600							219,742	207,241	12,501
Board of Education.....	11,620	10,726	894										11,420	10,726	694
Administration.....	436,662	435,745	917	32,485	26,261	6,224							469,547	462,006	7,541
Fiscal.....	154,338	142,504	11,834										154,838	144,740	14,098
Operations and maintenance.....	393,297	373,148	20,149				4,500	2,236	2,264				296,031	284,411	20,149
Pupil transportation.....	296,031	288,036	7,995										296,031	284,411	20,149
Central.....	14,520	12,163	2,357										14,520	12,163	2,357
Community services.....	7,000	5,993	1,007										7,000	5,993	1,007
Extracurricular activities.....	80,237	75,994	4,243	60,688	57,357	3,331							140,925	133,281	7,644
Debt service:															
Principal retirement.....															
Interest and fiscal charges.....															
Total expenditures.....	3,410,998	3,338,022	72,976	216,247	188,485	27,762	216,247	93,816	2,265				3,846,507	3,688,580	157,927
Excess (deficiency) of revenues over (under) expenditures.....	(210,998)	193,629	404,627	(23,581)	5,599	29,180	(24,501)	(19,235)	5,266				(302,059)	192,135	494,194
Other financing sources (uses):															
Refund of prior year's expenditures.....	0	650	650	0	200	200							0	850	850
Operating transfers (out).....	(3,000)	0	3,000										(3,000)	0	3,000
Proceeds from sale of fixed assets.....	0	3,000	3,000										0	3,000	3,000
Total other financing sources (uses).....	(3,000)	3,650	6,650	0	200	200							(3,000)	3,850	6,850
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses).....	(213,998)	197,279	411,277	(23,581)	5,799	29,380	(24,501)	(19,235)	5,266				(305,059)	195,985	501,044
Fund balances, July 1.....	530,819	530,819	0	40,578	40,578	0	91,037	91,037	0				668,626	668,626	0
Prior year encumbrances appropriated.....	129,572	129,572	0	8,167	8,167	0	38,116	38,116	0				175,855	175,855	0
Fund balances, June 30.....	\$446,993	\$857,670	\$411,277	\$25,164	\$54,544	\$29,380	\$66,536	\$71,802	\$5,266				\$539,422	\$1,040,466	\$501,044

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$17,826			\$17,826
Sales/charges for services	120,842	\$326,305		447,147
Investment earnings			\$948	948
Other operating revenues			10,000	10,000
Total operating revenues	138,668	326,305	10,948	475,921
Operating expenses:				
Personal services	73,044			73,044
Contract services	1,930	73,410		75,340
Materials and supplies	99,215	821		100,036
Depreciation	4,612			4,612
Claims expense		373,834		373,834
Other operating expenses	39	2,857		2,896
Total operating expenses	178,840	450,922		629,762
Operating income (loss)	(40,172)	(124,617)	10,948	(153,841)
Nonoperating revenues (expenses):				
Operating grants	23,204			23,204
Federal commodities	9,154			9,154
Interest revenue	1,063			1,063
Loss on disposal of assets	(1,852)			(1,852)
Other nonoperating revenues		1,723		1,723
Total nonoperating revenues (expenses)	31,569	1,723		33,292
Net income (loss)	(8,603)	(122,894)	10,948	(120,549)
Retained earnings/fund balance, July 1	35,507	196,768	14,490	246,765
Retained earnings/fund balance, June 30	\$26,904	\$73,874	\$25,438	\$126,216

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LUCAS LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:				
Cash received from tuition and fees/other	\$17,947		\$10,000	\$27,947
Cash received from sales/service charges	120,166	\$328,376		448,542
Cash payments for personal services	(72,245)			(72,245)
Cash payments for contract services	(1,850)	(73,410)		(75,260)
Cash payments for materials and supplies	(90,753)	(821)		(91,574)
Cash payments for claims expenses		(309,693)		(309,693)
Cash payments for other expenses	(116)			(116)
Net cash provided by (used in) operating activities	<u>(26,851)</u>	<u>(55,548)</u>	<u>10,000</u>	<u>(72,399)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	19,646			19,646
Cash received from other noncapital financing activities		1,723		1,723
Net cash provided by noncapital financing activities	<u>19,646</u>	<u>1,723</u>		<u>21,369</u>
Cash flows from capital and related financing activities:				
Aquisition of capital assets	(825)			(825)
Net cash used in capital and related financing activities	<u>(825)</u>			<u>(825)</u>
Cash flows from investing activities:				
Interest received	1,063		948	2,011
Net cash provided by investing activities	<u>1,063</u>		<u>948</u>	<u>2,011</u>
Net increase (decrease) in cash and cash equivalents	<u>(6,967)</u>	<u>(53,825)</u>	<u>10,948</u>	<u>(49,844)</u>
Cash and cash equivalents at beginning of year	32,166	239,146	14,490	285,802
Cash and cash equivalents at end of year	<u>\$25,199</u>	<u>\$185,321</u>	<u>\$25,438</u>	<u>\$235,958</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	(\$40,172)	(\$124,617)	\$10,948	(\$153,841)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,612			4,612
Federal donated commodities	9,154			9,154
Interest reported as operating income			(948)	(948)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(275)			(275)
Increase in accounts receivable	(555)			(555)
Decrease in prepayments	3			3
Increase in accounts payable	79			79
Decrease in accrued wages and benefits	(916)			(916)
Decrease in compensated absences payable	(166)			(166)
Increase in pension obligation payable	1,881			1,881
Increase in claims payable		66,998		66,998
Increase (decrease) in deferred revenue	(496)	2,071		1,575
Net cash provided by (used in) operating activities	<u>(\$26,851)</u>	<u>(\$55,548)</u>	<u>\$10,000</u>	<u>(\$72,399)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Lucas Local School District ("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 ranks as the 579th largest by total enrollment among the 612 districts in the State. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the district's four instructional/support facilities staffed by 31 classified and 45 certificated full-time teaching personnel who provide services to 654 students and other community members.

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:

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)*JOINT VENTURE WITHOUT EQUITY INTEREST*North Central Ohio Computer Cooperative (NCOCC)

NCOCC is a joint venture among 15 school districts and 1 educational service center. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NCOCC based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contribution. NCOCC is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in NCOCC as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the treasurer for the Pioneer Career and Technology JVSD, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

*PUBLIC ENTITY RISK POOL*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 (GRP) 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.

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 FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)*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 or the nonexpendable trust fund) 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 or the nonexpendable trust fund).

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 are 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 Funds - The internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)*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 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 for an analysis of the agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

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 or the nonexpendable trust fund.

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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 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.

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 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 Richland County Budget Commission for tax rate determination.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.
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. All supplemental appropriations were legally enacted by the Board during fiscal 1999.
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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 a nonnegotiable certificate of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are stated at fair market value which is based upon 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 specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the District Managed Activities special revenue fund, the expendable trust fund, the nonexpendable trust fund, the Food Service enterprise fund, and the Permanent Improvement capital projects fund. The following funds were credited with more interest revenue than would have been received based upon their share of the District's investments during fiscal 1999:

	Interest Actually Received	Interest Based Upon Share of Investments	Interest Assigned By Other Funds
General Fund	\$ 67,832	\$ 43,446	\$ 24,386
<u>Special Revenue Fund</u>			
District Managed Activities	451	293	158
<u>Enterprise Funds</u>			
Food Service	1,063	972	91

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds consist of donated food, purchased food, food service paper and janitorial supplies and 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:

Asset	Life (years)
Furniture, fixtures and equipment	5-20

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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
State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems
Title VI-B
Local Professional Development
Title I
Title VI
Textbook Materials/Subsidy
Venture Capital
Transition Funding
School to Work
Continuous Improvement Development

Capital Projects Funds

SchoolNet Plus

Proprietary Funds

Food Distribution Program

Reimbursable Grants

General Fund

Driver Education Reimbursement
School Bus Purchase Reimbursement
Vocational Education Travel/Salary

Proprietary Funds

National School Lunch Program
Government Donated Commodities

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Grants and entitlements amounted to approximately 44% 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.

J. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants, or contributions from developers, customers, or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

K. 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 government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, materials and supplies inventory, principal endowment, prepayments, budget stabilization, and tax revenue unavailable for appropriation. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

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. The District made no operating transfers in fiscal year 1999.
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 no short-term interfund loans receivable or 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 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 18 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, because prepayment is 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

1. Deficit Fund Balances

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

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Title I	\$ (110)
Local Professional Development	(12)

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 I and the Local Professional Development special revenue funds are caused by accruing wage and benefit obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - Continued

2. Agency Fund

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

<u>ASSETS</u>	
Accounts receivable	\$415
<u>LIABILITIES</u>	
Accrued wages and benefits	78
Accounts payable	943
Pension obligation payable	26

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

Protection of the 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Interim monies may be invested or deposited 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;
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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Cash on hand: At fiscal year end, the District had \$50 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."

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 was \$62,196 and the bank balance was \$157,111. These balances include a \$100,000 nonnegotiable certificate of deposit. The entire bank balance was covered by FDIC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District 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 entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. 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.

The District had an investment of \$1,299,207 in STAR Ohio. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

A reconciliation between the classifications of pooled cash and cash equivalents and investments on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 1,261,453	\$ 100,000
Investments:		
STAROhio	(1,299,207)	1,299,207
Certificate of Deposit	100,000	(100,000)
Cash on hand	(50)	0
GASB Statement 3	<u>\$ 62,196</u>	<u>\$ 1,299,207</u>

NOTE 5 - 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 November 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 \$43,873,570. Agricultural/residential and public utility/minerals real estate represented 63.59% or \$27,897,900 of this total; commercial & industrial real estate represented 2.80% or \$1,228,750 of this total, public utility tangible represented 31.70% or \$13,907,090 of this total and general tangible property represented 1.91% or \$839,830 of this total. The voted general tax rate at the fiscal year ended June 30, 1999 was \$45.00 per \$1,000.00 of assessed valuation for operations and \$1.50 per \$1,000.00 of assessed valuation for debt retirement.

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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 5 - PROPERTY TAXES - (Continued)

The District receives property taxes from Richland and Ashland Counties. The respective County Treasurers collect property taxes on behalf of the District. The respective County Auditors periodically remit 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. The amount available as an advance, and recorded as revenue, at June 30, 1999, was \$370,022 in the general fund and \$15,032 in the debt service fund.

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 6 - RECEIVABLES

Receivables at June 30, 1999 consisted of taxes, accounts (billings for user charged services), 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 and the stable condition of State programs and the current 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	\$ 1,760,783
Due from other governments	4,554
Accrued Interest	2,765
<u>Debt Service Fund</u>	
Taxes - current and delinquent	71,532
<u>Enterprise Funds</u>	
Due from other governments	3,558

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 7 - FIXED ASSETS

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

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Land / improvements	\$ 48,875	\$ 0	\$ 0	\$ 48,875
Buildings / improvements	2,991,131	27,758	0	3,018,889
Furniture / equipment	625,973	51,704	10,577	667,100
Vehicles	427,579	62,234	23,724	466,089
Total	<u>\$ 4,093,558</u>	<u>\$ 141,696</u>	<u>\$ 34,301</u>	<u>\$ 4,200,953</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	\$ 75,955
Less: accumulated depreciation	<u>(63,244)</u>
Net fixed assets	<u>\$ 12,711</u>

NOTE 8 - CONTRIBUTED CAPITAL

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

	<u>Food Service</u>
Contributed capital, July 1, 1998	\$ 1,500
Current contributions	<u>0</u>
Contributed capital, June 30, 1999	<u>\$ 1,500</u>

NOTE 9 - LONG-TERM OBLIGATIONS

The District has two long-term debt issues outstanding at June 30, 1999. These debt issues represent a general obligation bond and an energy conservation note.

During fiscal year 1998, the District issued a \$53,785 energy conservation note to provide for energy improvements to various District buildings. The primary source of repayment of this note is through energy savings as a result of the improvements. This note bears an interest rate of 4.75% and matures on September 1, 2007.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 9 - LONG-TERM OBLIGATIONS - Continued

Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. Unmatured obligations are accounted for in the general long-term obligations account group.

A. The following is a description of the District's general obligation bond and energy conservation note outstanding as of June 30, 1999:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 1998</u>	<u>Retired In 1999</u>	<u>Outstanding June 30, 1999</u>
General obligation bond payable	5.50%	12/01/01	\$280,000	\$(70,000)	\$210,000
Energy conservation note payable	4.75%	09/01/07	<u>53,785</u>	<u>(5,379)</u>	<u>48,406</u>
			<u>\$333,785</u>	<u>\$(75,379)</u>	<u>\$258,406</u>

B. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bond and the energy conservation note:

<u>Fiscal Year Ending</u>	<u>Principal on Bond/Note</u>	<u>Interest on Bond/Note</u>	<u>Total</u>
2000	75,379	11,828	87,207
2001	75,379	7,719	83,098
2002	75,379	3,610	78,989
2003	5,379	1,426	6,805
2004	5,379	1,167	6,546
2005 - 2008	21,511	2,077	23,588
Total	<u>\$ 258,406</u>	<u>\$ 27,827</u>	<u>\$ 286,233</u>

C. During the year ended June 30, 1999, the following changes occurred in 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 pension obligations will be paid from the fund in which the employee is paid.

	<u>Balance July 1, 1998</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 1999</u>
General obligation bond	\$ 280,000	\$ 0	\$(70,000)	\$ 210,000
Compensated absences	121,253	35,072	0	156,325
Pension obligation payable	44,718	43,162	(44,718)	43,162
Energy conservation note	<u>53,785</u>	<u>0</u>	<u>(5,379)</u>	<u>48,406</u>
Total	<u>\$ 499,756</u>	<u>\$ 78,234</u>	<u>\$(120,097)</u>	<u>\$ 457,893</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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 \$3,827,029 (including available funds of \$88,408) and an unvoted debt margin of \$43,874.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given fifteen to twenty days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited. The only exception is the Superintendent who can carry over up to ten days at the end of his contract, and the Treasurer who can carry over up to five days at the end of her contract. Teachers do not earn vacation time.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 220 days. Upon retirement, payment is made to employees with ten or more years of service at the District for twenty-five percent of the total sick leave accumulation with a maximum of 40 days payment.

During fiscal year 1999, the District adopted a one-time exit bonus for all part-time employees with a minimum of ten consecutive years of experience with the District. Part-time employees who elect this exit bonus must retire with the retirement system. Upon retirement, the exit bonus will be calculated on a formula of twenty-five percent of the first 120 days of accrued sick leave. The exit bonus is calculated using the scheduled daily rate of pay at the time of retirement. For those part-time who have accrue sick leave beyond 120 days, the following additional formula will apply:

Accumulated Sick Leave	Exit Bonus Shall Be Increased By	Total Exit Bonus Days
130 - 139 days	1 additional day	31
140 - 149 days	2 additional days	32
150 - 159 days	3 additional days	33
160 - 169 days	4 additional days	34
170 - 179 days	5 additional days	35
180 - 189 days	6 additional days	36
190 - 199 days	7 additional days	37
200 - 209 days	8 additional days	38
210 - 219 days	9 additional days	39
> = 220 days	10 additional days	40

The maximum exit bonus days that any employee can earn is forty.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 11 - RISK MANAGEMENT**A. Property, Fleet, and Liability Insurance**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the District retained property insurance coverage in the blanket amount of \$13,183,895 with 90% coinsurance, replacement cost endorsement and a \$1,000 deductible. Boiler and machinery coverage is also included in with the blanket coverage in the amount of \$5,757,190 with a \$1,000 deductible. The District also has inland marine floaters in the amount of \$83,288 with a \$100 deductible for coverage of audio visual equipment, two way radios, tractors, musical instruments and uniforms.

Vehicles are covered by a policy through Nationwide/Wausau Insurance Companies which provides for a \$50 deductible for comprehensive and a \$250 deductible for collision. Vehicle liability has a \$2,000,000 combined single limit of liability.

Nationwide/Wausau Insurance Companies also provide general liability coverage with a \$2,000,000 single occurrence limit and an aggregate of \$5,000,000 with no deductible.

B. Employee Dishonesty Bonds

The District carries employee dishonesty bonds for the Treasurer, Superintendent, and Board President in the amount of \$20,000. Also an employee blanket dishonesty bond in the amount of \$5,000 is provided to cover all other employees of the District.

C. Worker's Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The worker's 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 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 11 - RISK MANAGEMENT - (Continued)

D. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees through Anthem Benefit Administrators Inc. in the following amounts: full-time employees \$25,000, administrators \$50,000, and part-time grandfathered employees \$10,000.

The District has elected to provide a comprehensive medical benefits package to the employees through a self-insured program. The District maintains a self-insured internal service fund to account for the finances of its uninsured risks of loss in this program. This package provides a comprehensive medical plan with a \$275 single and \$375 family deductible (\$100 single and \$200 family deductibles for administrators). A third party administrator, Anthem Benefits Administrators Inc., located in Columbus, Ohio, reviews all claims for the medical plan which are then paid by the District. The District purchases stop-loss coverage of \$20,000 per individual and an aggregate limit of \$229,106 from Cox Insurance Group. The total monthly premium paid into the internal service fund for the medical plan is \$158 for single coverage and \$390 for family coverage which is paid out of the same fund that pays the salary for the employee. The District's amounts are capped by negotiated union contracts and cannot be increased except throughout negotiations. The employee monthly portion of the premium is \$16 for single coverage and \$39 for family coverage which is withheld from their biweekly payroll. The employees are responsible for payment of all claim amounts in excess of the employer capped amounts.

The District provides dental coverage for its employees on a self-insured basis through Anthem Benefits Administrators Inc. The total monthly premium is \$28 for single and family coverage. This premium is paid by the District. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employees are responsible for payment of all claim amounts in excess of the employer capped amounts.

The above employee portions of premiums for medical and dental insurance are for full-time employees. Grandfathered part-time employees also have medical and dental insurance benefits.

The claims liability of \$89,014 reported in the fund at June 30, 1999, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Of Year	Claims	Payments	End of Year
1999	\$ 22,016	\$ 373,834	\$(306,836)	\$ 89,014
1998	\$ 18,126	\$ 147,895	\$(144,005)	\$ 22,016

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and farm operations. 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>Rotary Farm</u>	<u>Total</u>
Operating revenue	\$118,039	\$17,826	\$2,803	\$138,668
Operating expenses before depreciation	156,128	16,656	1,444	174,228
Depreciation	4,612	---	---	4,612
Operating income (loss)	(42,701)	1,170	1,359	(40,172)
Operating grants	23,204	---	---	23,204
Net income (loss)	(11,132)	1,170	1,359	(8,603)
Net working capital	2,708	9,628	3,357	15,693
Total assets	34,110	9,911	3,357	47,378
Total liabilities	18,691	283	---	18,974
Contributed capital	1,500	---	---	1,500
Total equity	15,419	9,628	3,357	28,404
Encumbrances at 06/30/99	1,000	450	---	1,450

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. 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 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 FINANCIAL STATEMENTS

June 30, 1999

NOTE 13 - DEFINED BENEFIT PENSION PLANS - Continued

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board 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 \$80,370, \$77,578, and \$97,143, respectively; 37.5 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$50,154, 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.

2. 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 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, 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 \$224,723, \$214,012, and \$222,363, respectively; 83.15 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$37,864, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$128,413 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 SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$47,114 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - Continued

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:

**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 Project</u>
Budget basis	\$197,279	\$ 5,799	\$(19,235)	\$12,142
Net adjustment for revenue accruals	320,441	2,899	13,494	(4,526)
Net adjustment for expenditure accruals	(9,982)	(10,093)	1	1,262
Net adjustment for other financing sources (uses)	(650)	(200)	---	---
Encumbrances (budget basis)	<u>32,255</u>	<u>9,712</u>	<u>1,500</u>	<u>4,251</u>
GAAP basis	<u>\$539,343</u>	<u>\$ 8,117</u>	<u>\$ (4,240)</u>	<u>\$13,129</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

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. State 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 \$1,724,638 of total school foundation support for its general fund.

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 what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1999

NOTE 17 - GROUP PURCHASING POOL

The District is a member of the Metropolitan Educational Council (MEC) purchasing group. The following items are purchased through this group discount program; custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases.

NOTE 18 - 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	\$19,060
Current year set-aside requirement	53,243	53,243	26,621
Current year offsets	(9,035)	---	0
Qualifying disbursements	<u>(51,912)</u>	<u>(158,726)</u>	<u>0</u>
Total	<u>\$ (7,704)</u>	<u>\$(105,483)</u>	<u>\$45,681</u>
Cash balance carried forward to FY 2000	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$45,681</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.

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

Amount restricted for budget stabilization	<u>\$45,681</u>
Total restricted assets	<u>\$45,681</u>

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

On November 2, 1999, voters renewed an emergency operating levy and elected Linda McFarland and incumbent Michael Fanello to the School Board.

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION (unaudited)

June 30, 1999

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations as early as fiscal year 1999.

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, fixed assets accounting and educational statistics reporting.

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, the State of Ohio Uniform School Payroll System software for its payroll and employee benefits, the State of Ohio Equipment Inventory System for its fixed assets accounting and the State of Ohio Education Management and Information System (EMIS) for its education statistics reporting. The State is responsible for remediating these systems.

The Ohio Department of Education, Division of Information Management Services, State Software Development Team has addressed the status of the OECN State Software in regards to the compliance requirements for the Year 2000. Their assessment is as follows:

- The payroll processing software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1997 release of USPS V4.0.
- The accounting software supported with the OECN State Software is compliant with the Year 2000 beginning with the June 1998 release of USAS V6.1.
- The equipment inventory and vehicle inventory system software supported with the OECN State Software is compliant with the Year 2000 beginning with the March 1999 release of SAS V2.0.
- The education management information system software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1998 release of EMIS V1.7.

Richland and Ashland Counties collect property taxes for distribution to the District. These Counties are responsible for remediating their tax collection system.

The State of Ohio distributes a substantial sum of money to the District in the form of basic state aid "school foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

The District indicated that they have tested and validated their systems and they are Year 2000 compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready.

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Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards

Board of Education
Lucas Local School District
Lucas, Ohio 44843

We have audited the general purpose financial statements of the Lucas Local School District (the District), as of and for the year ended June 30, 1999 and have issued our report thereon dated December 2, 1999. 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 Lucas Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lucas Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal 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.



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However, we noted a certain matter involving the internal control over financial reporting that we have reported to management of the District, in a separate letter dated December 2, 1999.

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

Moore Stephens Apple

Akron, Ohio
December 2, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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LUCAS LOCAL SCHOOL DISTRICT
RICHLAND 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.

By: Susan Babbitt

Date: JAN 18 2000