



**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

National Trail Local School District
Preble County
6940 Oxford-Gettysburg Road
New Paris, Ohio 45347

To the Board of Education:

We have audited the accompanying financial statements of National Trail Local School District, Preble County, Ohio (the District), as of and for the fiscal year ended June 30, 1999. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code, Section 117-2-01, requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material cannot be determined at this time.

We were unable to obtain documentation supporting the financial activities of the District's extracurricular activities nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. Those financial activities represent 20 percent and 16 percent, respectively of the revenues and expenditures of the Special Revenue Fund Type, and all of the assets and revenues of the Internal Service Fund Type and Fiduciary Fund Type.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain supporting documentation of the District's extracurricular activities, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of National Trail Local School District, Preble County, as of June 30, 1999, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the fiscal year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 2000, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

This report is intended solely for the information and use of the audit committee, administration, Board of Education and other officials authorized to receive this report under Ohio Revised Code, Section 117.26, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a horizontal line.

Jim Petro
Auditor of State

March 28, 2000

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND
EXPENDABLE TRUST FUND - FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types			Capital Projects	Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Debt Service		Fund Type Expendable Trust	
Revenue:						
Revenue form Local Sources:						
Taxes	\$2,727,188	\$2,587	\$284,174	\$38,010		\$3,051,959
Tuition	4,782					4,782
Earning on Investments	36,678			20,685		57,363
Extracurricular Activities		76,928			\$1,377	78,305
Classroom Materials & Fees	9,492					9,492
Miscellaneous	92,648			104,730	765	198,143
Revenue from State Sources:						
Unrestricted Grants in Aid	4,333,020		29,550	5,356		4,367,926
Restricted Grants in Aid		46,842		2,904,295		2,951,137
Revenue for/on Behalf of the District	4,956					4,956
Revenue from Federal Sources:						
Restricted Grants in Aid		254,345				254,345
Total Revenue	7,208,764	380,702	313,724	3,073,076	2,142	10,978,408
Expenditures:						
Instruction:						
Regular	3,387,523	57,269		70,137	2,000	3,516,929
Special	700,250	181,744				881,994
Vocational	199,133	2,566		1,931		203,630
Other Instruction	22,323					22,323
Supporting Service:						
Pupils	212,226	1,528				213,754
Instructional	228,511	3,589				232,100
Board of Education	19,459					19,459
Administration	867,111	10,029	7,938	1,100		886,178
Fiscal Services	180,706	787				181,493
Operation and Maintenance - Plant	619,742	1,645		63,010		684,397
Pupil Transportation	474,185					474,185
Central	21,186					21,186
Extracurricular Activities:						
Academic and Subject Oriented Activities	15,330					15,330
Occupation Oriented Activities	193					193
Sports Oriented	81,621	40,663				122,284
Co-Curricular	10,280	8,900				19,180
Facilities Acquisition & Construction Services:						
Building Acquisition and Construction				2,418,539		2,418,539
Debt Service:						
Repayment of Debt	737,454		274,425			1,011,879
Total Expenditures	7,777,233	308,720	282,363	2,554,717	2,000	10,925,033
Excess of Revenue Over (Under) Expenditures:	(568,469)	71,982	31,361	518,359	142	53,375
Other Financing Sources and (Uses):						
Other Revenue Sources:						
Sale of notes	725,000					725,000
Transfers-in	141,888	9,519	91,635			243,042
Refund of Prior Year Expenditures	53,284	65				53,349
Transfers-out	(176,155)	(67,014)				(243,169)
Advances-out	(10,040)					(10,040)
Total other financing receipts/(disbursements)	733,977	(57,430)	91,635	0	0	768,182
Excess of cash receipts and other financing receipts (Under) Cash Disbursements	165,508	14,552	122,996	518,359	142	821,557
Fund Cash Balances, July 1, 1998	(29,340)	146,915	325,696	46,671	2,301	492,243
Fund Cash Balances, June 30, 1999	\$136,168	\$161,467	\$448,692	\$565,030	\$2,443	\$1,313,800
Reserve for encumbrances, June 30, 1999	\$94,456	\$16,088	\$0	\$31,990	\$80	\$142,614
Reserve for Budget Stabilization, June 30, 1999	\$84,509	\$0	\$0	\$0	\$0	\$84,509

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPES AND
AGENCY FUNDS - FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Receipts:				
Food Services	\$267,233			\$267,233
Extracurricular Activities		(\$85)	\$182,008	181,923
Classroom Materials & Fees	46,556			46,556
Total Operating Revenue	<u>313,789</u>	<u>(85)</u>	<u>182,008</u>	<u>495,712</u>
Operating Expenditures:				
Personal Services - Salaries	141,826			141,826
Employees' Retirement and Insurance	33,847			33,847
Purchased Services	3,341		1,128	4,469
Supplies and Materials	214,583			214,583
Capital outlay	(1,703)			(1,703)
Capital outlay - Replacement	7,096			7,096
Other Objects		8,803	174,147	182,950
Total Cash Disbursements	<u>398,990</u>	<u>8,803</u>	<u>175,275</u>	<u>583,068</u>
Excess of Operating Receipts Over/(Under) Operating Expenditures	<u>(85,201)</u>	<u>(8,888)</u>	<u>6,733</u>	<u>(87,356)</u>
Non-Operating Revenue:				
Earnings on Investments	413			413
Miscellaneous	172	1,050		1,222
Revenue from State Sources: Restricted Grants in Aid	4,802			4,802
Revenue for Federal Sources: Unrestricted Grants in Aid	76,045			76,045
Refund of Prior Years Expenditures	541		10	551
Total Non-Operating Revenue	<u>81,973</u>	<u>1,050</u>	<u>10</u>	<u>83,033</u>
Excess of Revenue Over/(Under) Expenses Before Interfund Transfers and Advances	<u>(3,228)</u>	<u>(7,838)</u>	<u>6,743</u>	<u>(4,323)</u>
Other financing receipts/(disbursements):				
Transfers-in		626	682	1,308
Advances-in		10,040		10,040
Transfers-out			(1,182)	(1,182)
Total other financing receipts/(disbursements)	<u>0</u>	<u>10,666</u>	<u>(500)</u>	<u>10,166</u>
Excess of cash receipts and other financing receipts (Under) Cash Disbursements	<u>(3,228)</u>	<u>2,828</u>	<u>6,243</u>	<u>5,843</u>
Fund Cash Balances, July 1, 1998	<u>90,816</u>	<u>7,007</u>	<u>67,265</u>	<u>165,088</u>
Fund Cash Balances, June 30, 1999	<u>\$87,588</u>	<u>\$9,835</u>	<u>\$73,508</u>	<u>\$170,931</u>
Reserve for encumbrances, June 30, 1999	<u>\$2,356</u>	<u>\$0</u>	<u>\$18,738</u>	<u>\$21,094</u>

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

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Fund Types/Funds:			
Governmental			
General Fund	\$8,046,312	\$8,075,652	\$29,340
Special Revenue Funds	390,038	390,221	183
Debt Service Fund	390,773	405,359	14,586
Capital Projects Funds	3,052,405	3,073,076	20,671
Expendable Trust Funds	1,995	2,142	147
Proprietary			
Enterprise Funds	397,278	395,762	(1,516)
Internal Service Funds	22,493	1,591	(20,902)
Fiduciary			
Agency	<u>175,122</u>	<u>182,690</u>	<u>7,568</u>
Total (Memorandum Only)	<u><u>\$12,476,416</u></u>	<u><u>\$12,526,493</u></u>	<u><u>\$50,077</u></u>

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

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>	<u>Actual Disbursements</u>	<u>Outstanding Encumbrances</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
Fund Types/Funds:							
Governmental							
General Fund	\$150,698	\$7,846,309	\$7,997,007	\$7,953,388	\$94,456	\$8,047,844	(\$50,837)
Special Revenue Funds	42,783	507,597	550,380	375,734	16,088	391,822	158,558
Debt Service Fund		297,985	297,985	282,363		282,363	15,622
Capital Projects Funds	1,614,352	1,161,044	2,775,396	2,554,717	31,990	2,586,707	188,689
Expendable Trust Funds	205	2,345	2,550	2,000	80	2,080	470
Proprietary							
Enterprise Funds	6,250	445,261	451,511	398,990	2,356	401,346	50,165
Internal Service Funds	642	15,073	15,715	8,803		8,803	6,912
Fiduciary							
Agency	12,659	218,450	231,109	176,457	18,738	195,195	35,914
Total (Memorandum Only)	<u>\$1,827,589</u>	<u>\$10,494,064</u>	<u>\$12,321,653</u>	<u>\$11,752,452</u>	<u>\$163,708</u>	<u>\$11,916,160</u>	<u>\$405,493</u>

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

National Trail Local School District, Preble County, Ohio (the District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and the laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 65 non-certified and approximately 91 certified teaching personnel and administrative employees providing education to 1,325 students.

Reporting Entity

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For National Trail School District this includes general operations, food service and student related activities of the District.

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

The District is associated with three organizations which are defined as jointly governed organizations, one insurance purchasing pool, and one public entity risk pool. These organizations include (for transmission of reports), the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (SOEPC GRP), and Preble County Schools Regional Council of Governments. These organizations are presented in Notes 10, 11 and 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code, Section 117-2-01, to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

A. Basis of Presentation - Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types

General Fund - The general fund is the operating fund of the District and is used to account for all financial resources except those required by law or contract 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 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 disbursements for specified purposes.

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

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

Proprietary Fund Type

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

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 of providing goods and 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.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the District, these include expendable trust and agency funds.

B. BUDGETARY PROCESS

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 1998, unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the fiscal year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

C. CASH AND INVESTMENTS

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

During fiscal year 1999, the District's investments were limited to funds invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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.

D. PROPERTY, PLANT AND EQUIPMENT

Fixed assets acquired or constructed for general governmental service are recorded as expenditures.

E. UNPAID VACATION AND SICK LEAVE

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. TOTAL COLUMNS ON FINANCIAL STATEMENTS

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

3. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or 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 or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations.

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

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

1. United States treasury bills, bonds, notes, 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 security 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; and

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

3. DEPOSITS AND INVESTMENTS (Continued)

6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain 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 obligation, 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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount (not including payroll clearance account or escrow accounts) of the District's deposits was \$1,483,122 and the bank balance was \$1,581,747. Of the bank balance, \$100,000 was covered by federal depository insurance and \$1,481,747 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money were followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: Investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The District invests in Star Ohio, an investment pool operated by the Ohio State Treasurer. Star Ohio is a non-categorized investment since it is not evidenced by securities that exist in physical book entry form. At June 30, 1999, the District had investments in Star Ohio in the amount of \$1,609.

4. DEBT OBLIGATIONS

Debt outstanding at June 30, 1999, consisted of the following:

Energy Conservation Notes	
Principal Outstanding	\$ 60,000
Interest Rate	6.700 %
School Improvement Bonds	
Principal Outstanding	\$3,380,000
Interest Rate	5.730 %

The outstanding energy conservation notes consisted of an original issue of \$155,000 whose purpose was to implement the energy conservation measures provided for in House Bill 264.

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

4. DEBT OBLIGATIONS (Continued)

The outstanding school improvement bonds were issued for the construction of a new school building in 1997.

General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all property in the District.

The total requirements to amortize all debt outstanding as of June 30, 1999, including interest are annually listed as follows:

Year Ending June 30	Energy Conservation Notes	School Improvement Bonds
2000	\$24,020	\$255,585
2001	22,680	262,855
2002	21,340	264,593
2003	0	265,993
2004	0	277,083
2005-2009	0	1,430,823
2010-2014	0	1,542,160
2015-2018	<u>0</u>	<u>1,625,000</u>
Total	<u>\$68,040</u>	<u>\$5,924,092</u>

5. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 1993 with the triennial update being calculated in 1996.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established. The state automatically allows 30 days for extension and the County Treasurer may request additional 30 days.

The full tax rate applied to real property for the fiscal year ended June 30, 1999, was \$36.88 per \$1,000 of assessed valuation. After adjustment of the rate of inflationary increases in property values, the effective tax rate was \$28.83 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$29.17 per \$1,000 of assessed valuation for all other real property.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

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

5. PROPERTY TAX (Continued)

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended June 30, 1999 was \$36.88 per \$1,000 of assessed valuation.

Real Property - 1998 Valuation	
Residential/Agricultural	\$60,312,260
Commercial/Industrial	8,228,200
Public Utilities	36,260
Tangible Personal Property - 1999 Valuation	
General	3,982,170
Public Utilities	<u>9,403,050</u>
Total Valuation	<u>\$81,961,940</u>

The School District receives property taxes from Darke and Preble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 1999, are available to finance fiscal year 2000 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

6. INCOME TAX

The District levies a voted tax of 1 percent for general operations on the income of residents and estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The total amount of \$893,887 was received during the fiscal year ending June 30, 1999. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RISK MANAGEMENT

A. Other Insurance

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999 the District contracted with Wausau Insurance Company for property and fleet insurance, liability insurance, and inland marine coverage.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reductions in coverage from prior years.

B. Workers' Compensation

For fiscal year 1999, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (SOEPC GRP), an insurance purchasing pool. The intent of the SOEPC 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 SOEPC GRP. The workers'

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

7. RISK MANAGEMENT (Continued)

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 SOEPC GRP. Each participant pays its workers' compensation premium to the State based on the rate for the SOEPC GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the SOEPC GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SOEPC GRP. Participation in the SOEPC GRP is limited to school districts that can meet the SOEPC GRP's selection criteria. The firm of Anthem provides administrative, cost control and actuarial services to the SOEPC GRP.

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SOEPC GRP. Participation in the SOEPC GRP is limited to school districts that can meet the SOEPC GRP's selection criteria. The firm of Anthem provides administrative, cost control and actuarial services to the SOEPC GRP.

C. Employee Medical Benefits

For fiscal year 1999, the School District also participated in the Preble County Schools Regional Council of Governments (COG), a public entity risk pool (Note 12), in order to provide medical benefits to its employees. The COG is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the COG.

8. 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 defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$167,064 \$150,546 and \$142,230, respectively.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations 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 \$515,916, \$516,288 and \$475,968, respectively.

9. POST-EMPLOYMENT 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the District, this amount equaled \$839,205 for fiscal year 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the fiscal year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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 was established at \$12,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$166,078.

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 the annual health care expenses. Expenses for health care for the fiscal year

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

9. POST-EMPLOYMENT BENEFITS (Continued)

ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service acts as the Fiscal agent for the group. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 1999 the District paid \$3,088 to SOEPC. To obtain financial information write to Southwestern Ohio Educational Purchasing Council, Robert Brown serving as director at 1831 Harshman Road, Dayton, Ohio 45424.

Southwest Ohio Computer Association - The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Hamilton, Preble, and Warren Counties and Cities of Eaton, Edgewood, Fairfield, Franklin, Hamilton, Lebanon, Loveland, Mason, Middletown, Oxford, and Springboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. The School District paid SWOCA \$24,168 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, who serves as director, at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under Ohio Revised Code, Section 1702.01. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. All superintendents except for those from educational service centers vote on the representatives after a nomination committee nominates individuals to run.

One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member

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

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 1999, the School District paid \$1,962 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

11. GROUP INSURANCE PURCHASING POOL

The District is a member of the Southwestern Ohio Educational Purchasing Council (the Council), a public entity shared risk pool consisting of seventy school districts. The Cooperative is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Directors which advises the Trustee, National City Bank, concerning aspects of the administration of the Council.

Each school district decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Cooperative is by written application subject to acceptance by the Board of Directors and payment of monthly premiums. Financial information can be obtained from Barbara Coriell, who serves as administrator, at EPC Benefits Office, 1831 Harshman Road, Dayton, Ohio 45424.

The District participates in the Southwestern Ohio Educational Purchasing Cooperation Workers' Compensation Group Rating Program (SOEPC GRP), an insurance purchasing pool. The SOEPC 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 EPC. The Executive Director of the EPC, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the SOEPC GRP to cover the costs of administering the program.

12. PUBLIC ENTITY RISK POOL

Preble County Schools Regional Council of Governments - The Preble County Schools Regional Council of Governments (COG), a public entity risk sharing pool, was formed by five local school districts and the Preble County Educational Service Center to provide medical benefits to school district participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is provided by Community Mutual. The premium is based on what an insurer estimates will cover the costs of all claims for which the insurer is obligated. If the District's losses exceed its premiums, there is no individual supplemental assessment; if the District's losses are low, it will not receive a refund. The health insurance risks have been transferred to the COG.

The COG is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to its representation on the committee.

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

13. STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 1999, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>	<u>Total</u>
Set-Aside Cash Balance June 30, 1998	\$ 0	\$ 0	\$ 0	\$ 0
Current Year Set-Aside Requirement	109,447	109,447	84,509	303,403
Current Year Offset	0	0	0	0
Qualifying Disbursements	<u>(119,421)</u>	<u>(110,337)</u>	<u>0</u>	<u>(229,758)</u>
Cash Balance Carried Forward to FY 2000	<u>\$ (9,974)</u>	<u>\$ (890)</u>	<u>\$ 84,509</u>	
Total Restricted General Fund Balance As of June 30, 1999				<u>\$84,509</u>

Although the School District had qualifying disbursements during the fiscal 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.

14. CONTINGENCIES

A. Grants

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

B. Litigation

The District is party to legal proceedings. The District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

15. 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 the District. For the fiscal year ended June 30, 1999, the District received \$4,132,940 in school foundation support for its General fund.

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

15. STATE SCHOOL FUNDING DECISION (Continued)

In addition, the Court declared the classroom facilities program unconstitutional, because, in the Court's opinion, the program had not been sufficiently funded by the State. The classroom facilities program provided money to build schools and furnish classrooms. As of June 30, 1999, the School District had received a total of \$2,778,636 under this program.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly 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. As of March 28, 2000, 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 these programs and on its financial operations.

16. NONCOMPLIANCE

The District had numerous instances of material noncompliance during the fiscal year, including:

- Improper posting of revenue;
- Failure to properly encumber expenditures;
- Failure to maintain supporting documentation;
- Failure to monitor appropriations and estimated resources;
- Failure to adequately collateralize deposits;
- Failure to execute 412 certificates; and
- Preparation of financial statements on a Cash rather than GAAP basis.

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SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	n/a	10.550	-	\$10,086	-	\$10,833
Child Nutrition Cluster:						
National School Breakfast Program	049270-05-PU-98	10.553	\$5,194	-	\$5,194	-
	049270-05-PU-99		11,248	-	11,248	-
Total National School Breakfast Program			16,442	-	16,442	-
National School Lunch Program	049270-03-PU-98	10.555	3,673	-	3,673	-
	049270-03-PU-99		8,953	-	8,953	-
	049270-04-PU-98		13,419	-	13,419	-
	049270-04-PU-99		33,558	-	33,558	-
Total National School Lunch Program			59,603	-	59,603	-
Total Child Nutrition Cluster			76,045	-	76,045	-
Total U.S. Department of Agriculture			76,045	10,086	76,045	10,833
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	049270-6B-SF-98P	84.027	57,368	-	57,368	-
Special Education - Preschool Grant	049270-PG-S1-98P	84.173	1,014	-	1,012	-
Total Special Education Cluster			58,382	-	58,380	-
Grants to Local Educational Agencies (ESEA Title I)	049270-C1-S1-98	84.010	-	-	13,775	-
	049270-C1-S1-99		193,671	-	166,957	-
Total Grants to Local Educational Agencies			193,671	-	180,732	-
Goals 2000	049270-G2-S1-97	84.276	-	-	6,834	-
<i>Passed Through Miami Valley Career Technology Center:</i>						
Vocational Education	n/a	84.048	2,292	-	1,043	-
Total U.S. Department of Education			254,345	-	246,989	-
Totals			\$330,390	\$10,086	\$323,034	\$10,833

The accompanying notes to this schedule are an integral part of this schedule.

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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



STATE OF OHIO
OFFICE OF THE AUDITOR

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

National Trail Local School District
Preble County
6940 Oxford-Gettysburg Road
New Paris, Ohio 45347

To the Board of Education:

We have audited the financial statements of National Trail Local School District, Preble County, Ohio, (the District) as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated March 28, 2000 which was qualified due to the inability to obtain documentation supporting the financial activities of the District's extracurricular activities and because the District prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. Except as discussed in the preceding sentence, 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 National Trail Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-10368-001 to 007.

We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated March 28, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1999-10368-001 to 010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 1999-10368-003 to 006 and 010 to be material weaknesses.

We also noted other matters involving the internal control structure over financial reporting that do not require inclusion in this report that we have reported to the management of the District in a separate letter dated March 28, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

March 28, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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

National Trail Local School District
Preble County
6940 Oxford-Gettysburg Road
New Paris, Ohio 45347

To the Board of Education:

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 1999.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would

National Trail Local School District
Preble County
Report of Independent Accountants on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control over
Compliance in Accordance with OMB Circular A-133
Page 2

be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

March 28, 2000

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I - CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

Finding Number	1999-10368-001
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Material Noncompliance and Internal Control Reportable Condition - Proper Posting of Revenue

Ohio Revised Code, Section 5705.04, states the taxing authority of each subdivision is required to "divide" the taxes levied into the following separate levies: The general levy for debt charges within the ten-mill limitation; the general levy for current expenses within the ten-mill limitation; special levies within the ten-mill limitation; the general levy for debt charges authorized by law or by vote of the people in excess of the ten-mill limitation and other special or general levies authorized by law or by vote of the people in excess of the ten-mill limitation. Ohio Revised Code, Section 5705.10, requires all revenue derived from the general levy for current expense within the ten-mill limitation, any general levy for current expense authorized by vote in excess of the ten-mill limitation, and from sources other than the general property tax, unless its use for a particular purpose is prescribed by law, is required to be paid into the general fund. All revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made. All revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

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

School foundation receipts were properly recorded at gross and in the correct fund. However, there was no uniformity to the posting of the receipts. At various times, different line items were combined. Entries were often posted and/or corrected two, three, or more times.

The District's homestead and rollback taxes were not all correctly posted to the revenue ledger. The revenue should have been posted to the general fund, bond retirement fund, and classroom facilities fund. However, one receipt was posted entirely to the general fund. Deposit for one tax settlement receipt was made 8/21/98; however, the receipt was not posted to the District's ledgers until 3/31/99. On September 25, 1998, the District receipted homestead and rollback monies to the General Fund in the amount of \$115,715.04. Of this amount, \$2,083.72 should have been recorded in Fund 034 (Classroom Facilities Fund) and \$14,585.99 should have been recorded in Fund 002 (Bond Retirement Fund).

Failure to record revenues in the correct funds can result in overspending of funds and negative fund balances. Voters of the District authorize tax levies for specific purposes. Therefore, it is important that tax proceeds are credited to the proper funds thereby allowing the proceeds to be expended for the purpose(s) for which they are intended. We recommend that the District exercise due care when posting tax receipts.

The District should implement procedures to properly record all revenues received.

The financial statements reflect the adjustments listed above.

Subsequent to June 30, 1999, it appears that the District implemented procedures to properly post taxes and intergovernmental revenue.

Finding Number	1999-10368-002
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Material Noncompliance and Internal Control Reportable Condition - Encumbrances

Ohio Revised Code, Section 5705.41 (D), states that: No subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same...has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon. If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrance, the taxing authority may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate. If the amount involved is less than \$1,000, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education, if such expenditure is otherwise valid.

Forty three percent of the transactions tested for the fiscal year ended June 30, 1999 were not properly certified and encumbered and were not included in the exceptions.

Failure to properly encumber expenditures can result in overspending funds and negative cash fund balances.

We recommend the District properly utilize the encumbrance method of accounting by obtaining approved purchase orders, which contain the Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

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

Finding Number	1999-10368-003
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Material Noncompliance and Material Internal Control Weakness - Availability of Records

Ohio Revised Code, Section 149.351(A), establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or part, except as provided by law or under rules adopted by the records commission provided for under Ohio Revised Code, Sections 149.38 through 149.42.

1. The District could not provide supporting documentation for the receipts, expenditures and cash balances of the student activities and athletic events selected for testing.

Not properly documenting the above-mentioned extracurricular activities could result in the misappropriation of District revenues. It resulted in an opinion qualification relative to extracurricular activities.

We recommend the District maintain all student activity records in accordance with Ohio law.

2. The District could not locate supporting documentation for a \$29,241 expenditure to Demmy Construction and a \$36,269 expenditure to Electrical Systems. These expenditures were part of the school construction loan and were sent to the loan administrators who review all expenditures. The District neglected to keep copies of the information for their own records.

Failure to maintain supporting documentation for all expenditures can result in misappropriation of funds.

We recommend that the District maintain supporting documentation for all expenditures.

3. Adequate supporting documentation could not be found for three separate miscellaneous receipts (a magazine sales receipt, a donation receipt, and an advanced benefit scholarship receipt). The donation and scholarship receipt could be traced to deposit slips.

Adequate documentation should be maintained for all revenues of the District. Failure to properly monitor receipts could lead to misappropriation or loss of funds.

The District should maintain adequate supporting documentation for all receipts.

Finding Number	1999-10368-004
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Material Noncompliance and Material Internal Control Weakness - Appropriations and Total Estimated Revenues

Ohio Revised Code, Section 5705.39, stipulates the total appropriations from each fund should not exceed the total estimated revenue.

At September 30, 1998, appropriations exceeded the total estimate of resources for the following funds: Fund 300, and Fund 006. At June 30, 1999, appropriations exceeded the total estimate of resources for the following funds: Fund 018, Fund 034, Fund 300, Fund 409, Fund 416, Fund 432, Fund 455, Fund 516, Fund 524, Fund 572, Fund 003, Fund 004, Fund 420, Fund 450, Fund 454, Fund 006, Fund 011, Fund 007, and Fund 200.

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

The number of funds not in compliance, both interim and at year end, indicate a distinct lack of monitoring by management. Failure to properly monitor appropriations and estimated resources can result in overspending of funds and negative cash fund balances. The District has low fund balances and does not have the funds to overspend in any of its funds. If a fund becomes negative, the only fund allowed by law to transfer money to other funds is the general fund, which at year end, after reserve for encumbrances has a fund balance of only \$41,712.

The District should adopt procedures to ensure that the total appropriations from each fund do not exceed the official or amended estimate of resources.

Finding Number	1999-10368-005
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Material Noncompliance and Material Internal Control Weakness - Depository Collateral

Ohio Revised Code, Section 135.18, requires that the treasurer of a political subdivision must require a depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

The District's deposits at Eaton National Bank were not adequately covered by collateral at all times during the fiscal year. Eighty three percent of all month-end depository balances examined were not adequately covered by collateral. At October 31, 1998, the District's deposits at Eaton National Bank exceeded legal security by \$1,300,252.

Failure to adequately collateralize deposits can result in loss of funds.

The District should implement procedures to verify that depository balances are adequately secured by eligible collateral at all times.

Finding Number	1999-10368-006
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Material Noncompliance and Material Internal Control Weakness - 412 Certificates

Ohio Revised Code, Section 5705.412, requires the treasurer, superintendent, and president of the board of education to certify that adequate revenues will be available to maintain all personnel, programs and services essential to the provision of an adequate educational program for a specified number of days.

The District did not execute any of the 412 certificates required for the audit period. Certificates should have been executed for the following items: 1999 permanent appropriations resolution, 1999 final appropriation resolution, master contract between the National Trail Board of Education and National Trail Education Association, and the master contract between the National Trail Board of Education and Ohio Association of Public School Employees, Local 623.

Obligations that have not been certified as required are considered void. Failure to execute the required certificates can result in penalties.

The certifications for fiscal 1999 were obtained after year end. We recommend that the District implement procedures to ensure that all required 412 certificates are completed and executed.

Subsequent to June 30, 1999, the District began executing required 412 certificates.

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

Finding Number	1999-10368-007
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Material Noncompliance and Internal Control Reportable Condition - Basis of Accounting for Financial Reporting

Ohio Administrative Code, Section 117-2-0, requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Finding Number	1999-10368-008
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Internal Control Reportable Condition - Reconciliations

Throughout the audit period and for the last several years, the District did not accurately reconcile its budgetary and payroll accounts.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and ensure that all recorded transactions have been deposited with the financial institution.

We recommend that management reconcile the budgetary and payroll accounts on a monthly basis. Any variances should be immediately investigated and justified. The payroll clearing account should always agree to the amount of outstanding checks.

The District should establish written procedures for cash reconciliations. These procedures should include how to handle voided and/or hand-typed checks so they are properly approved by the Treasurer and entered in to the computerized accounting system. The pre-numbered checks should not be used out of numerical sequence. When a payroll check is voided and reissued, the District has been transferring additional funds to the payroll clearing account and not transferring the amount of the voided checks back to the general account. This transfer of funds has caused balances to accumulate in the payroll account that belong to the general checking account. A second employee as well as a Board member should review and approve the reconciliations.

Subsequent to June 30, 1999, monthly reconciliations were being completed and presented to the Board for review at their monthly meetings.

Finding Number	1999-10368-009
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Internal Control Reportable Condition - Escrow Accounts

The District has established and is using escrow accounts for retainage of construction payments as required by Ohio Revised Code, Section 152. Only the District has the ability to withdraw amounts from these accounts. These accounts are not reflected on the Districts accounting records.

Not having these accounts on the District's accounting records does not provide the user of the financial statements with a true reflection of the activity of the District regarding the progress of the construction.

The District should reflect these accounts on the Districts ledgers to accurately report its finances.

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

We recommend the escrow accounts be shown on the Districts accounting records as retainage payable in the capital projects fund on a GAAP basis and on a cash basis show it as an agency fund.

Finding Number	1999-10368-010
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Internal Control Material Weakness - Governing Body Oversight

Although it is management's responsibility to establish and maintain an adequate internal control structure, only the Board is in a position to ensure management fulfills this obligation. Because top management is often in a position to override the controls it establishes, the Board must compensate for this potential control weakness by serving as a final, higher level of accountability.

We believe the following conditions indicate a need for increased oversight of management by the Board:

- Budgetary and payroll accounts have not been accurately reconciled for the past several years;
- Receipts have been posted to incorrect funds and not detected;
- Board approved appropriations were in excess of estimated resources for several funds;
- The District's computerized accounting system did not reflect appropriations and estimated resources as adopted by the Board;
- Controls over determining if purchases are made within budget are weak;
- Updates to appropriations/estimated resources were not timely posted at year end; and
- The final amended certificate of estimated sources and final appropriation measure do not match the June 30, 1999 reports generated from the District's system.

Failure to properly record budgeted receipts and expenditures can result in overspending of funds and negative fund balances.

To increase accountability over District finances, we recommend that the Board of Education carefully review the financial statements provided on a monthly basis by the Treasurer.

We recommend that the District record budgeted amounts and any amendments in the ledgers. Management should institute procedures to properly monitor budgetary transactions. Proper monitoring over appropriations and estimated receipts will aid the District in properly accounting for their budgetary transactions.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1998-10368-001	Citation issued per Ohio Revised Code, Section 5705.10, for negative fund balances	Yes	
1998-10368-002	Citation per Ohio Revised Code, Section 5705.04, for proper posting of revenues	No	Reissued as finding number 1999-10368-001
1998-10368-003	Citation per Ohio Revised Code, Section 5705.41 (D), for encumbering	No	Reissued as finding number 1999-10368-002
1998-10368-004	Citation per Ohio Revised Code, Section 149.351(A), for availability of records	No	Reissued as finding number 1999-10368-003
1998-10368-005	Citation per Ohio Revised Code, Section 5705.39, for appropriations exceeding total estimated revenue	No	Reissued as finding number 1999-10368-004
1998-10368-006	Citation per Ohio Revised Code, Section 5705.41 (B) & (D), for appropriations	No	Partially corrected, in management letter for 1999
1998-10368-007	Citation per Ohio Revised Code, Section 5705.412, for not issuing any 412 certificates	No	Reissued as finding number 1999-10368-006
1998-10368-008	An internal control recommendation regarding cash reconciliations	No	Reissued as finding number 1999-10368-008
1998-10368-009	An internal control recommendation for escrow accounts	No	Reissued as finding number 1999-10368-009
1998-10368-010	Internal control recommendation for increased oversight by the governing board	No	Reissued as finding 1999-10368-010

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
(Continued)

1998-10368-011	Internal control recommendation regarding fixed assets	No	Finding no longer valid, not issuing GAAP statements
1998-10368-012	Internal control recommendation for audit committee	Yes	
1998-10368-013	Internal control recommendation for monitoring budgetary accounting system	No	Reissued as part of finding 1999-10368-010
1998-10368-014	Internal control recommendation for preparation of GAAP financial statements	Yes	Finding no longer valid. District no longer issuing GAAP statements



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NATIONAL TRAIL LOCAL SCHOOL DISTRICT

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 18, 2000**