



**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

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

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

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

As described in Note 3b to the accompanying general purpose financial statements, the District made a reclassification and certain adjustments during fiscal year 1999.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 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.

Jim Petro
Auditor of State

January 31, 2000

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents	\$394,016	\$84,748	\$10,714	\$110,331
Equity in pooled cash and cash equivalents - nonexpendable trust fund				
Cash with fiscal agent	420			
Investments - Expendable Trust				
Investments - Nonexpendable Trust				
Receivables (net of allowances of uncollectibles):				
Taxes - current & delinquent	1,636,403			165,682
Accounts	5,996	117		
Accrued interest	64			
Interfund loan receivable	18,718			
Due from other governments		5,252		
Prepayments	4,331			
Materials and supplies inventory				
Restricted assets:				
Equity in pooled cash and cash equivalents	62,283			
Property, plant and equipment (net of accumulated depreciation where applicable)				
OTHER DEBITS:				
Amount available in Debt Service Fund				
Amount to be provided for retirement of General Long-Term Obligations				
Total assets and other debits	<u>\$2,122,231</u>	<u>\$90,117</u>	<u>\$10,714</u>	<u>\$276,013</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$40,486	\$11,573		\$3,884
Accrued wages and benefits	342,523	13,825		
Compensated absences payable	10,794			
Pension obligation payable	60,968			
Interfund loan payable		18,718		
Deferred revenue	1,416,376			152,384
Due to other governments	1,880			
Due to students				
Energy conservation notes payable				
Obligation under capital lease				
Total liabilities	<u>1,873,027</u>	<u>44,116</u>		<u>156,268</u>
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets				
Retained earnings: unreserved				
Fund balances:				
Reserved for encumbrances	8,072	2,566		2,952
Reserved for prepayments	4,331			
Reserved for debt service			10,714	
Reserved for tax revenue unavailable for appropriation	105,109			13,298
Reserved for principal endowment				
Reserved for instructional materials	10,636			
Reserved for budget stabilization	51,647			
Unreserved-undesignated	69,409	43,435		103,495
Total equity and other credits	<u>249,204</u>	<u>46,001</u>	<u>10,714</u>	<u>119,745</u>
Total liabilities, equity and other credits	<u>\$2,122,231</u>	<u>\$90,117</u>	<u>\$10,714</u>	<u>\$276,013</u>

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		(Memorandum Only)
Enterprise	Internal Service	Trust and Agency	Fixed Assets	Long-Term Obligations	
\$53,464	\$4,587	\$38,616			\$696,476
		204			204
					420
		39,295			39,295
		6,200			6,200
					1,802,085
149					6,262
					64
					18,718
4,373					9,625
					4,331
3,653					3,653
					62,283
20,609			\$3,861,424		3,882,033
				\$10,714	10,714
				334,020	334,020
<u>\$82,248</u>	<u>\$4,587</u>	<u>\$84,315</u>	<u>\$3,861,424</u>	<u>\$344,734</u>	<u>\$6,876,383</u>
					\$55,943
\$7,577					363,925
5,139				\$200,177	216,110
12,645				25,584	99,197
					18,718
1,107					1,569,867
		\$651			2,531
		32,327			32,327
				90,136	90,136
				28,837	28,837
<u>26,468</u>		<u>32,978</u>		<u>344,734</u>	<u>2,477,591</u>
			\$3,861,424		3,861,424
55,780	\$4,587				60,367
					13,590
					4,331
					10,714
					118,407
		10,995			10,995
					10,636
					51,647
		40,342			256,681
<u>55,780</u>	<u>4,587</u>	<u>51,337</u>	<u>3,861,424</u>		<u>4,398,792</u>
<u>\$82,248</u>	<u>\$4,587</u>	<u>\$84,315</u>	<u>\$3,861,424</u>	<u>\$344,734</u>	<u>\$6,876,383</u>

**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	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Revenues:					
From local sources:					
Taxes	\$1,378,776			\$180,189	
Tuition	9,840				
Earnings on investments	31,817				131
Other local revenues	10,267	81,750			4,715
Intergovernmental - State	2,717,549	25,304		142,864	
Intergovernmental - Federal		159,910			
Total revenue	<u>4,148,249</u>	<u>266,964</u>		<u>323,053</u>	<u>4,846</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,750,852	21,137		12,477	7,648
Special	272,210	122,550			
Vocational	132,020				
Support services:					
Pupil	157,980	11,986		82,268	
Instructional staff	154,050	35,178		5,718	
Board of Education	21,109				
Administration	411,920	16,134			
Fiscal	163,892	1,985		4,074	
Operations and maintenance	342,043			88,793	
Pupil transportation	228,322	10,421			
Central	42,813				
Community services					500
Extracurricular activities	89,800	56,830			
Facilities services				460,563	
Capital outlay	33,542				
Debt service:					
Principal retirement	4,705		37,352		
Interest and fiscal charges	2,096		6,762		
Total expenditures	<u>3,807,354</u>	<u>276,221</u>	<u>44,114</u>	<u>653,893</u>	<u>8,148</u>
Excess (deficiency) of revenues over (under) expenditures	340,895	(9,257)	(44,114)	(330,840)	(3,302)
Other financing sources (uses):					
Operating transfers in			44,114		
Operating transfers out				(44,114)	
Proceeds of capital lease transaction	33,542				
Proceeds from sale of assets	2,295				
Total other financing sources (uses)	<u>35,837</u>		<u>44,114</u>	<u>(44,114)</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	376,732	(9,257)	0	(374,954)	(3,302)
Fund balance (Deficit), July 1 (Restated)	<u>(127,528)</u>	<u>55,258</u>	<u>10,714</u>	<u>494,699</u>	<u>48,235</u>
Fund balance, June 30	<u>\$249,204</u>	<u>\$46,001</u>	<u>\$10,714</u>	<u>\$119,745</u>	<u>\$44,933</u>

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

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

	General Fund			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$1,384,683	\$1,383,910	(\$773)			
Tuition	9,800	10,005	205			
Earnings on investments	32,000	31,333	(667)			
Other local revenues	7,700	3,905	(3,795)	\$96,679	\$81,883	(\$14,796)
Intergovernmental - State	2,733,558	2,718,099	(15,459)	25,304	25,304	0
Intergovernmental - Federal				163,749	154,658	(9,091)
Total revenues	4,167,741	4,147,252	(20,489)	285,732	261,845	(23,887)
Expenditures:						
Current:						
Instruction:						
Regular	1,873,613	1,746,045	127,568	21,740	22,319	(579)
Special	284,787	281,746	3,041	141,379	121,931	19,448
Vocational	132,675	146,325	(13,650)			
Support services:						
Pupil	161,905	148,569	13,336	23,150	11,986	11,164
Instructional staff	184,569	159,352	25,217	23,367	35,487	(12,120)
Board of Education	31,165	20,663	10,502			
Administration	491,169	399,284	91,885	19,700	16,177	3,523
Fiscal	176,247	165,043	11,204		567	(567)
Operations and maintenance	388,756	346,422	42,334			
Pupil transportation	278,884	231,511	47,373	11,000	11,802	(802)
Central	44,960	42,910	2,050			
Extracurricular activities	131,985	90,246	41,739	59,170	52,406	6,764
Facilities services						
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	4,180,715	3,778,116	402,599	299,506	272,675	26,831
Excess (deficiency) of revenues over (under) expenditures	(12,974)	369,136	382,110	(13,774)	(10,830)	2,944
Other financing sources (uses):						
Refund of prior year's expenditures	13,580	2,016	(11,564)			
Operating transfers in	44,500	44,353	(147)			
Operating transfers (out)	(45,000)	(44,353)	647	(2,630)		2,630
Advances in	90,000	71,711	(18,289)	40,429	40,429	0
Advances (out)	(90,000)	(90,429)	(429)	(16,088)	(21,711)	(5,623)
Proceeds of sale of fixed assets	3,500	2,295	(1,205)			
Total other financing sources (uses)	16,580	(14,407)	(30,987)	21,711	18,718	(2,993)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)...	3,606	354,729	351,123	7,937	7,888	(49)
Fund balance, July 1	47,696	47,696	0	63,433	63,433	0
Prior year encumbrances appropriated...	35,740	35,740	0	4,858	4,858	0
Fund balance, June 30	\$87,042	\$438,165	\$351,123	\$76,228	\$76,179	(\$49)

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

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$181,870	\$181,012	(\$858)	\$1,566,553	\$1,564,922	(\$1,631)
						9,800	10,005	205
						32,000	31,333	(667)
						104,379	85,788	(18,591)
			598,439	592,864	(5,575)	3,357,301	3,336,267	(21,034)
						163,749	154,658	(9,091)
			<u>780,309</u>	<u>773,876</u>	<u>(6,433)</u>	<u>5,233,782</u>	<u>5,182,973</u>	<u>(50,809)</u>
			5,000	12,477	(7,477)	1,900,353	1,780,841	119,512
						426,166	403,677	22,489
						132,675	146,325	(13,650)
			1,159	82,268	(81,109)	186,214	242,823	(56,609)
			239	5,791	(5,552)	208,175	200,630	7,545
						31,165	20,663	10,502
						510,869	415,461	95,408
			5,000	4,074	926	181,247	169,684	11,563
			98,500	90,291	8,209	487,256	436,713	50,543
						289,884	243,313	46,571
						44,960	42,910	2,050
						191,155	142,652	48,503
				506,174	(506,174)	0	506,174	(506,174)
\$63,900	\$37,352	\$26,548				63,900	37,352	26,548
8,600	6,762	1,838				8,600	6,762	1,838
<u>72,500</u>	<u>44,114</u>	<u>28,386</u>	<u>109,898</u>	<u>701,075</u>	<u>(591,177)</u>	<u>4,662,619</u>	<u>4,795,980</u>	<u>(133,361)</u>
(72,500)	(44,114)	28,386	670,411	72,801	(597,610)	571,163	386,993	(184,170)
						13,580	2,016	(11,564)
45,211	44,114	(1,097)	240	239	(1)	89,951	88,706	(1,245)
			(20,000)	(44,353)	(24,353)	(67,630)	(88,706)	(21,076)
			50,000	50,000	0	180,429	162,140	(18,289)
			(50,000)	(50,000)	0	(156,088)	(162,140)	(6,052)
						3,500	2,295	(1,205)
<u>45,211</u>	<u>44,114</u>	<u>(1,097)</u>	<u>(19,760)</u>	<u>(44,114)</u>	<u>(24,354)</u>	<u>63,742</u>	<u>4,311</u>	<u>(59,431)</u>
(27,289)	0	27,289	650,651	28,687	(621,964)	634,905	391,304	(243,601)
10,714	10,714	0	46,514	46,514	0	168,357	168,357	0
			31,076	31,076	0	71,674	71,674	0
<u>(\$16,575)</u>	<u>\$10,714</u>	<u>\$27,289</u>	<u>\$728,241</u>	<u>\$106,277</u>	<u>(\$621,964)</u>	<u>\$874,936</u>	<u>\$631,335</u>	<u>(\$243,601)</u>

**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>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$25,131			\$25,131
Sales/charges for services	127,512	54,975		182,487
Investment earnings			310	310
Total operating revenues	152,643	54,975	310	207,928
Operating expenses:				
Personal services	77,420	46,877		124,297
Contract services	1,792	649		2,441
Materials and supplies	122,903	3,373	76	126,352
Depreciation	4,676			4,676
Other	93	183	247	523
Total operating expenses	206,884	51,082	323	258,289
Operating income (loss)	(54,241)	3,893	(13)	(50,361)
Nonoperating revenues:				
Operating grants	28,379			28,379
Federal commodities	14,002			14,002
Interest revenue	2,563			2,563
Total nonoperating revenues	44,944			44,944
Net income (loss)	(9,297)	3,893	(13)	(5,417)
Retained earnings/fund balance July 1 (Restated)	65,077	694	6,417	72,188
Retained earnings/fund balance June 30	\$55,780	\$4,587	\$6,404	\$66,771

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

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Cash flows from operating activities:				
Cash received from tuition and fees	\$25,144			\$25,144
Cash received from sales/service charges	127,463	\$54,975		182,438
Cash payments for personal services	(70,970)	(46,877)		(117,847)
Cash payments for contract services	(1,792)	(649)		(2,441)
Cash payments supplies and materials	(108,581)	(3,373)	(\$76)	(112,030)
Cash payments for other expenses	(93)	(183)	(247)	(523)
Net cash provided by (used in) operating activities	(28,829)	3,893	(323)	(25,259)
Cash flows from noncapital financing activities:				
Cash received from operating grants	24,006			24,006
Net cash provided by noncapital financing activities	24,006			24,006
Cash flows from investing activities:				
Purchase of Investments			(700)	(700)
Interest received	2,563		310	2,873
Net cash provided by investing activities	2,563		(390)	2,173
Net increase (decrease) in cash and cash equivalents	(2,260)	3,893	(713)	920
Cash and cash equivalents at beginning of year	55,724	694	917	57,335
Cash and cash equivalents at end of year	\$53,464	\$4,587	\$204	\$58,255
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	(\$54,241)	\$3,893	(\$13)	(\$50,361)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,676			4,676
Federal donated commodities	14,002			14,002
Interest reported as operating income			(310)	(310)
Changes in assets and liabilities:				
Decrease in supplies inventory	2,182			2,182
Increase in accounts receivable	(36)			(36)
Increase in accrued wages & benefits	329			329
Increase in compensated absences payable	547			547
Increase in pension obligation payable	5,574			5,574
Decrease in deferred revenue	(1,862)			(1,862)
Net cash provided by (used in) operating activities	(28,829)	\$3,893	(\$323)	(25,259)

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

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mechanicsburg Exempted Village School District (the "District") is located in Champaign County, in west-central Ohio. The District includes all of the Village of Mechanicsburg and portions of surrounding townships.

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

The District currently operates 1 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 24 non-certified and 59 (including administrative) full-time and part-time employees to provide services to approximately 830 students in grades K through 12 and various community groups, which ranks it 541 out of approximately 612 school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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's significant accounting policies are described below.

A. The Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

Jointly Governed Organizations:

Ohio Hi-Point Career Center - The Ohio Hi-Point Career Center is a distinct political subdivision of the State of Ohio operating under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possess its own budgeting and taxing authority. To obtain financial information, write to the Ohio Hi-Point Career Center, 2280 State Route 540, Bellefontaine, Ohio 43311. The District did not contribute any money to the Ohio Hi-Point Career Center during fiscal year 1999.

Western Ohio Computer Organization (WOCO) -The Western Ohio Computer Organization Computer Association (WOCO) is a computer consortium among 29 area school districts. The consortium was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each member district supports WOCO based upon a per pupil charge dependent upon the software package utilized. The governing board of WOCO consists of two representatives 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 WOCO \$13,635 for services provided during the year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. The Reporting Entity (Continued)

Related Organization:

Mechanicsburg Public Library - The Mechanicsburg Public Library is a related organization to the Mechanicsburg Exempted Village School District. The School Board members are responsible for appointing the trustees of the Public Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the Mechanicsburg Exempted Village School District. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library may issue debt and determines its own budget. The Library did not receive any funding from the District during fiscal year 1999.

The District is also a participant in an insurance group purchasing pool, discussed in Note 12.

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.

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through Governmental Funds. The following are the District's Governmental Fund Types:

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

Special Revenue Funds - 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 - 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 Funds and Trust Funds).

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

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

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the District, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - These 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 Expendable Trust, Nonexpendable Trust and Agency Funds. Agency Funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

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 Funds.

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

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental funds and the Expendable Trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting (Continued)

All Proprietary funds and the Nonexpendable Trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for Governmental and Expendable Trust funds. 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 interest, tuition, grants and entitlements (to the extent they are intended to finance the current fiscal year), and accounts (student fees and rent). 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) and amounts available as an advance on future tax settlements are recognized as revenue at year-end. 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.

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 exceptions: general long-term obligation principal and interest are reported only when due; and the 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 and Nonexpendable Trust funds 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.

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 Champaign County Budget Commission for tax rate determination.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets (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.
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 and are reflected in the following amounts:

General Fund	\$218,491	
Special Revenue funds		\$ (4,271)
Debt Service fund		(200,911)
Capital Projects funds		(485,314)
Enterprise funds	16,389	
Internal Service fund	41,925	
Trust funds		____(8,718)
Agency funds	<u>6,243</u>	
Total	<u>\$283,048</u>	<u>\$(699,214)</u>

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.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets (Continued)

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 reservation of 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 16 provides a reconciliation of the budgetary basis and GAAP basis of accounting.

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" (both unrestricted and restricted) on the combined balance sheet.

During 1999, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit and donated common stock.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

Calculation of the Net Decrease in the Fair Value of Investments - Aggregate Method

Fair value at June 30, 1999	\$ 34,500
Add: Proceeds of investments sold fiscal 1999	0
Less: Cost of investments purchased	(0)
Less: Fair value at June 30, 1998	<u>(35,500)</u>
Change in fair value of investments	<u>\$ (1,000)</u>

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General fund during fiscal 1999 totaled \$31,817 which included \$15,477 assigned from other funds of the District.

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

F. Inventory

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepays

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 and deferrals are not available to finance future Governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. 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 and a useful life of less than five years. 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 and Non-expendable Trust Funds

Equipment reflected in these funds is 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)
Buildings	25 - 50
Furniture, Fixtures and Minor Equipment	5 - 20
Vehicles	4 - 6

I. 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. Grants for Proprietary fund operations are recognized as 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

Capital Projects Funds
State Property Tax Relief

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Intergovernmental Revenues (Continued)

Non-Reimbursable Grants

Special Revenue Funds

- Venture Capital
- Teacher Development
- Management Information Systems
- Disadvantaged Pupil Impact Aid
- Title VI-B
- Title I
- Title VI
- Drug-Free Schools
- Instructional Materials Subsidy

Capital Project Funds

- School Net
- Technology Equity
- Emergency Building Repairs

Reimbursable Grants

General Fund

- School Bus Purchases
- Driver Education

Proprietary

- National School Lunch Program
- National School Milk Program

Grants and entitlements amounted to over 61% of the District's operating revenue during the 1999 fiscal year.

J. 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 Statement No. 16 of the GASB, 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 (50) or greater with at least ten (10) years of service; or twenty (20) years' service at any 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.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

Accumulated vacation and severance of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

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.

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, tax revenue unavailable for appropriation, prepaids, budget stabilization, principal endowment, and instructional materials. In addition, although the Nonexpendable Trust fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment. The unreserved portions of fund equity reflected for the Governmental funds are available for use within the specific purposes of those funds.

M. Interfund Transactions

During the course of normal operations, the District has 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 report transfers of resources as operating transfers.
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.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Transactions (Continued)

6. 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. An analysis of the District's interfund transactions for fiscal year 1999 is presented in Note 5.

N. 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:

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Set-aside cash balance as of June 30, 1998	\$ 0	\$ 0	\$22,972	\$ 22,972
Current year set-aside requirement	57,349	57,349	28,675	143,373
Current year offsets	(11,096)	(172,232)	0	(183,328)
Qualifying disbursements	<u>(35,617)</u>	<u>(30,860)</u>	<u>0</u>	<u>(66,477)</u>
Total	<u>10,636</u>	<u>(145,743)</u>	<u>51,647</u>	<u>(83,460)</u>
Cash balance carried forward to FY 2000	<u>\$10,636</u>	<u>\$ 0</u>	<u>\$51,647</u>	<u>\$ 62,283</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	\$51,647
Amount restricted for instructional materials	<u>10,636</u>
Total restricted assets	<u>\$62,283</u>

O. Statement of Cash Flows

In September 1989, the GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The District has presented a statement of cash flows for its Enterprise and Non-expendable Trust funds. For purposes of the statement of cash flows, the District considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This Statement is effective for financial statements beginning after December 15, 1993. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Q. Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is completely restricted by State legislation.

R. 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.

S. 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

The following fund accounts had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

Fund Type/Function	Excess
General Fund Type	
Vocational Instruction	
Personal Services	\$ 16,705
Capital Projects Fund Type	
School Net Fund	
Pupil Support	
Materials & Supplies	42,951
Capital Outlay	29,705
Permanent Improvement Fund	
Regular Instruction	
Capital Outlay Replacement	6,393

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

A. (Continued)

Fund Type/Function	Excess
Capital Projects Fund Type	
Emergency Building Repair Fund	
Facilities Services	
Purchased Services	495,879
Materials and Supplies	4,121
Special Revenue Fund Type	
Miscellaneous Federal Grants Fund (Goals 2000)	
Support Services - Instructional Staff	
Materials & Supplies	7,506
Capital Outlay	12,010
School Improvement Model Fund	
Regular Instruction	
Purchased Services	5,228
Materials & Supplies	2,899

B. Reclassification

As of June 30, 1999, the District reclassified insurance activity from an account in the General Fund to a separate Internal Service Fund (Rotary Fund) in order to reflect its change in measurement focus. The effect of this change on fund balance/retained earnings as previously reported is as follows:

	Fund Balance/Retained Earnings as Previously Reported June 30, 1998	Adjustment	Restated Fund Balance/ Retained Earnings July 1, 1998
General Fund	\$(126,834)	\$(694)	\$(127,528)
Internal Service Fund	<u>0</u>	<u>694</u>	<u>694</u>
Total, All Funds	<u>\$(126,834)</u>	<u>\$ 0</u>	<u>\$(126,834)</u>

The District restated retained earnings at July 1, 1998 for the Enterprise Fund due to errors in the recording of fixed assets net of depreciation. Enterprise Fund fixed assets increased by \$8,093, net of depreciation as of June 30, 1998.

	Retained Earnings as Previously Reported June 30, 1998	Adjustment	Restated Fund Equity/ Retained Earnings July 1, 1998
Enterprise Fund	<u>\$56,984</u>	<u>\$8,093</u>	<u>\$65,077</u>

The investment in general fixed assets in the general fixed asset account group as previously reported at June 30, 1998 has been restated as of July 1, 1998. Total assets increased by \$280,045 from \$3,493,629 to \$3,773,674 due to an error in the recording of fixed assets.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

C. Deficit Fund Balances

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

	Deficit Balance
Special Revenue Funds	
Disadvantaged Pupil Impact Aid	\$(11)
Title VI	(9)

These GAAP-basis deficits will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the School 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 School 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, 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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999**

(Continued)

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

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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's Investment Pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At year end, the District had \$1,400 in undeposited cash on hand which is included on the Balance Sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with Fiscal Agent: At year end, \$420 was on deposit with the District's fiscal agent and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "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 (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits: At year end, the carrying amount of the District's deposits was \$140,426 and the bank balance was \$143,617 (both amounts include \$10,995 in non-negotiable certificates of deposit, but are exclusive of payroll clearance accounts). The entire bank balance was covered by federal depository insurance.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or 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. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

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

Investments: (Continued)

	<u>1</u>	Category of Risk		Fair Value
		<u>2</u>	<u>3</u>	
Donated Common Stock	\$34,500			34,500
Not Subject to Categorization:				
Investment in State				
Treasurer's Investment Pool	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>628,552</u>
Total Investments	<u>\$34,500</u>	<u>N/A</u>	<u>N/A</u>	<u>\$663,052</u>

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 entitled, Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

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

	Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 758,963	\$ 45,495
Investments of the Cash		
Management Pool:		
Certificates of Deposit	10,995	(10,995)
State Treasurer's Investment Pool	(628,552)	628,552
Cash on Hand	(1,400)	
Cash with Fiscal Agent	<u>420</u>	<u>0</u>
GASB Statement No. 3	<u>\$ 140,426</u>	<u>\$663,052</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

	Transfers In	Transfers (Out)
Debt Service Funds	\$44,114	\$ 0
<u>Capital Projects Funds</u>		
Permanent Improvement	<u>0</u>	<u>(44,114)</u>
Totals	<u>\$44,114</u>	<u>\$(44,114)</u>

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

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

	Interfund Loan Receivable	Interfund Loan (Payable)
General Fund	\$18,718	
Special Revenue Fund		
Title VI-B		\$ (2,630)
Title I		(15,000)
Drug-Free School Grant	_____	_____(1,088)
Total All Fund Types	<u>\$18,718</u>	<u>\$(18,718)</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after 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 \$52,787,805. Agricultural/Residential and public utility real estate represented 80.63% or \$42,560,780 of this total; Commercial & Industrial real estate represented 6.62% or \$3,496,690; public utility tangible 5.60% or \$2,954,525 and general tangible property 7.15% or \$3,775,810. The voted general tax rate for operations at the fiscal year ended June 30, 1999 was \$25.40 per \$1,000.00 of assessed valuation and \$5.00 per \$1,000.00 of assessed valuation for permanent improvements.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 7 - INCOME TAX

The District levies a voted tax of ½ of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1997, 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 State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Total income tax revenue for fiscal 1999, credited to the General fund, was \$417,075 which includes a receivable at June 30, 1999 of \$114,918.

NOTE 8 - RECEIVABLES

Receivables at June 30, 1999 consisted of taxes, accounts (rent and student fees) and intergovernmental grants and entitlements (to the extent that such grants and entitlements relate to the current year). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of Federal grants.

A summary of the principal items of receivables follows:

	Amounts
General Fund	
Taxes - Property and income	\$1,636,403
Capital Projects Funds	
Taxes - Property	165,682
Special Revenue Funds	
Due From Other Governments	5,252
Enterprise Funds	
Due From Other Governments	4,373

NOTE 9 - FIXED ASSETS

The following changes occurred in the General Fixed Assets Account Group during the year:

	Balance July 1, 1998	Increases	Decreases	Balance June 30, 1999
Land/Improvements	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Buildings	2,846,278	0	0	2,846,278
Furniture/ Equipment	627,719	101,485	(18,735)	710,469
Vehicles	<u>297,677</u>	<u>5,000</u>	<u>0</u>	<u>302,677</u>
Total	<u>\$ 3,773,674</u>	<u>\$106,485</u>	<u>\$(18,735)</u>	<u>\$3,861,424</u>

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

Furniture and Equipment	\$ 80,717
Less: Accumulated Depreciation	<u>(60,108)</u>
Net Fixed Assets	<u>\$ 20,609</u>

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In the current year, the District has entered into capitalized leases for the acquisition of copiers.

Each lease meets the criteria of a capital lease as defined by FASB Statement No. 13, Accounting for Leases, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. The new lease has been accounted for as a capital outlay expenditure and other financing source in the General fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 1999 fiscal year totaled \$4,705. This amount is reflected as debt service principal retirement in the General fund.

The following is an analysis of equipment leased under capital leases as of June 30, 1999:

General Fixed Assets	
Copiers	<u>\$33,542</u>
Carrying Value	<u>\$33,542</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 1999.

General Long-Term Obligations	
June 30 Year Ending	Total
2000	\$ 8,162
2001	8,162
2002	8,162
2003	8,162
2004	<u>1,360</u>
Total Minimum Lease Payments	34,008
Less: Amount Representing Interest	<u>(5,171)</u>
Present Value of Future Minimum Lease Payments	<u>\$28,837</u>

NOTE 11 - LONG-TERM OBLIGATIONS

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to these notes are recorded as expenditures in the Debt Service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

The following is a description of the Mechanicsburg Exempted Village School District note outstanding as of June 30, 1999:

Purpose	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance 07/01/98	Retired In Fiscal 1999	Balance 06/30/99
HB 264 Energy Conservation Note	5.49%	08/15/96	08/01/06	<u>\$173,515</u>	<u>\$127,488</u>	<u>\$37,352</u>	<u>\$90,136</u>

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation note:

Year Ending June 30	Principal HB 264 Energy Conservation Note	Interest HB 264 Energy Conservation Note	Total
2000	\$17,352	\$ 4,710	\$ 22,062
2001	17,352	3,758	21,110
2002	17,352	2,805	20,157
2003	17,352	1,853	19,205
2004	17,352	900	18,252
2005	<u>3,376</u>	<u>93</u>	<u>3,469</u>
Total	<u>\$90,136</u>	<u>\$14,119</u>	<u>\$104,255</u>

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will be paid from the fund from which the employee is paid.

	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Compensated Absences	\$216,826	\$19,068	\$ (35,717)	\$200,177
Capital Lease		33,542	(4,705)	28,837
Pension Obligation Payable	35,705	25,584	(35,705)	25,584
HB 264 Energy Conservation Notes	<u>127,488</u>	<u>0</u>	<u>(37,352)</u>	<u>90,136</u>
TOTAL	<u>\$380,019</u>	<u>\$78,194</u>	<u>\$(113,479)</u>	<u>\$344,734</u>

The Ohio Revised Code provides that voted net general obligation debt of a school 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 for the District at June 30, 1999 are a voted debt margin of \$4,761,616 (including available funds of \$10,714) and an unvoted debt margin of \$52,788.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 12 - RISK MANAGEMENT

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

During fiscal year 1999, the District contracted with Nationwide Mutual Fire Insurance Company for property and fleet insurance, liability insurance and inland marine coverage. Coverage's provided by Nationwide Insurance are as follows:

Building and Contents - replacement cost	\$13,984,700
Automobile Liability	1,000,000
Uninsured Motorists	100,000
Crime	5,000
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

OSBA WORKER'S COMPENSATION GROUP RATING

The District is a member of the OSBA Workers' Compensation Group Rating Program established in April 1991. The program was created by the Ohio Schools Boards Association as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three Enterprise funds to account for the operations of Food Services, Uniform School Supplies and Special Enterprise. 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.

	Food Service	Uniform School Supplies	Special Enterprise	Total
Operating Revenue	\$123,346	\$25,131	\$4,166	\$152,643
Operating Income (Loss)	(58,583)	3,457	885	(54,241)
Depreciation	4,676	0	0	4,676
Operating Grants	28,379	0	0	28,379
Net Income (Loss)	(13,639)	3,457	885	(9,297)
Net Working Capital	31,301	7,811	1,475	40,587
Total Assets	72,962	7,811	1,475	82,248
Long-Term Liabilities				
Payable from Fund				
Revenues	4,986	0	0	4,986
Total Liabilities	26,468	0	0	26,468
Total Fund Equity	46,494	7,811	1,475	55,780
Encumbrances	3,300	0	0	3,300

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999**

(Continued)

NOTE 14 - 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.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1999; 4.02 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 \$77,584, \$78,799, and \$79,768, respectively; 35 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$41,436, which represents the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

B. STATE TEACHERS RETIREMENT SYSTEM

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes 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, 1999, 1998, and 1997 were \$309,273, \$293,328, and \$281,741, respectively; 84 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$50,496, which represents the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999**

(Continued)

NOTE 15 - 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.

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 are required to pay a portion of 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, 1998, the Board allocated employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$77,318 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 million at June 30, 1998. As of July 1, 1998, eligible benefit recipients totaled 91,999. For the fiscal year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll, an increase from 4.21 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 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, 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. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$34,537 during the 1999 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, 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 GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 16 - 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		
	General Fund	Special Revenue Funds	Capital Projects Funds
Budget Basis	\$354,729	\$ 7,888	\$ 28,687
Net Adjustment for Revenue Accruals	997	5,119	(450,823)
Net Adjustment for Expenditure Accruals	(47,372)	(12,115)	43,128
Net Adjustment for Other Financing Sources/ (Uses)	50,244	(18,718)	0
Adjustment for Encumbrances	<u>18,134</u>	<u>8,569</u>	<u>4,054</u>
GAAP Basis	<u>\$376,732</u>	<u>\$ (9,257)</u>	<u>\$(374,954)</u>

NOTE 17 - CONTINGENT LIABILITIES

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 - Subsequent event

The District is party to legal proceedings which were initiated after June 30, 1999. The District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,1999
(Continued)**

NOTE 17 - CONTINGENT LIABILITIES (Continued)

C. School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received \$2,438,075 of school foundation support in total (all funds) 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 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 June 30, 1999, 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 School 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.



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

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

We have audited the financial statements of Mechanicsburg Exempted Village School District (the District), Champaign County, as of and for the year ended June 30, 1999, and have issued our report thereon dated January 31, 2000 in which we noted that the District made a reclassification and certain adjustments during fiscal year 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-10311-001 and 1999-10311-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 31, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 31, 2000.

This report is intended for the information and use of management and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

January 31, 2000

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	1999-10311-001
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Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B), outlines the restrictions on the appropriation and expenditure of money by the District. The requirement establishes that no subdivision or taxing unit is to expend money unless it has been appropriated. The Rev. Code further outlines that appropriations should not be exceeded by expenditures and purchase commitments.

Budgetary laws and regulations were tested throughout the audit period at the legal level of control. The legal level of control is the level (fund/function/object) at which the appropriation resolution is adopted by the Board of Education.

Exceptions to this requirement were identified in various line items when we compared the annual appropriation measure to the actual expenditures plus encumbrances. As of the June 30, 1999, these exceptions by fund/function/object include, but are not limited to:

Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund Type			
Vocational Instruction			
Personal Services	\$ 99,945	\$116,650	\$ 16,705
Capital Projects Fund Type			
School Net Fund			
Pupil Support			
Materials & Supplies	137	43,088	42,951
Capital Outlay	840	30,545	29,705
Permanent Improvement Fund			
Regular Instruction			
Capital Outlay Replacement	5,000	11,393	6,393
Emergency Building Repair Fund			
Facilities Services			
Purchased Services	0	495,879	495,879
Materials and Supplies	0	4,121	4,121
Special Revenue Fund Type			
Miscellaneous Federal Grants Fund (Goals 2000)			
Support Services - Instructional Staff			
Materials & Supplies	200	7,706	7,506
Capital Outlay	0	12,010	12,010
School Improvement Model Fund			
Regular Instruction			
Purchased Services	0	5,228	5,228
Materials & Supplies	0	2,899	2,899

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER	1999-10311-001 (Continued)
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The District should develop procedures for timely monitoring of appropriations and expenditures at the level adopted by the Board. These procedures could include, but not be limited to, a more detailed review of various budgetary reports that are available to the District.

FINDING NUMBER	1999-10311-002
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Noncompliance Citation

Ohio Rev. Code Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated resources. The following funds had appropriations which exceeded the amended certificate of estimated resources as of the following dates:

December 31, 1998

Tech Equity Fund	\$ 4,900
Emergency Repair Grant	45,000
Rotary Fund	41,066

June 30, 1999

Disadvantage Pupil Impact Aid	\$ 1,651
Teacher Development	612
Title VI-B	15,622
Debt Service	16,575

No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The District should develop procedures for timely monitoring of appropriations and resources in order to prevent deficit spending. These procedures could include but not be limited to a more detailed review of various budgetary reports that are available to the District.

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 1999**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-10311-001	expenditures exceeding appropriations	No	Repeated
1998-10311-002	fixed assets	Yes	N/A



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Facsimile 614-466-4490

MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT

CHAMPAIGN 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
MARCH 14, 2000**