CONOTTON VALLEY UNION LOCAL DISTRICT
HARRISON 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

Conotton Valley Union Local School District
Harrison County
7205 Cumberland Road
Bowerston, Ohio 44695

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Conotton Valley Union Local School District, Harrison 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 Conotton Valley Union Local School District, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 1999 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

November 29, 1999

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

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
ASSETS AND OTHER DEBITS								
ASSETS:								
Equity in pooled cash and cash equivalents	$1,139,487	$76,171	$203,592	$7,695	$7,829			$1,434,774
Investments					208,788			208,788
Receivables (net of allowances of uncollectibles):								
Taxes - current & delinquent	1,509,161		1,402					1,510,563
Accrued interest					1,904			1,904
Interfund loan receivable	10,239							10,239
Due from other governments		2,427		11,035				13,462
Prepayments	3,009							3,009
Materials and supplies inventory				2,469				2,469
Restricted assets:								
Equity in pooled cash and cash equivalents	41,565							41,565
Property, plant and equipment (net of accumulated depreciation where applicable)				6,754		$2,280,141		2,286,895
OTHER DEBITS:								
Amount to be provided for retirement of general long-term obligations							$148,493	148,493
Total assets and other debits	$2,703,461	$78,598	$204,994	$27,953	$218,521	$2,280,141	$148,493	$5,662,161

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	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
LIABILITIES, EQUITY AND OTHER CREDITS								
LIABILITIES:								
Accounts payable	$12,648	$3,838	$39,712					$56,198
Accrued wages and benefits	238,551	14,885		$6,142				259,578
Compensated absences payable	9,803	190		381			$78,649	89,023
Pension obligation payable	44,082			9,130			33,289	86,501
Interfund loan payable			8,676	774	$789			10,239
Deferred revenue	1,431,040			1,377				1,432,417
Due to students					6,770			6,770
Asbestos loan payable							36,555	36,555
Tax anticipation note payable	183,000							183,000
Total liabilities	1,919,124	18,913	48,388	17,804	7,559		148,493	2,160,281
EQUITY AND OTHER CREDITS:								
Investment in general fixed assets						$2,280,141		2,280,141
Retained earnings: unreserved				10,149				10,149
Fund balances:								
Reserved for encumbrances	26,975	6,578	48,894					82,447
Reserved for prepayments	3,009							3,009
Reserved for tax revenue unavailable for appropriation	42,300							42,300
Reserved for principal endowment					210,692			210,692
Reserved for budget stabilization	38,424							38,424
Reserved for textbooks	3,141							3,141
Unreserved-undesignated	670,488	53,107	107,712		270			831,577
Total equity and other credits	784,337	59,685	156,606	10,149	210,962	2,280,141		3,501,880
Total liabilities, equity and other credits	$2,703,461	$78,598	$204,994	$27,953	$218,521	$2,280,141	$148,493	$5,662,161

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

**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**	**Total (Memorandum Only)**
Revenues:						
From local sources:						
Taxes	$1,603,511			$52,491		$1,656,002
Earnings on investments.	67,753					67,753
Other local revenues	33,517	$72,564		400		106,481
Intergovernmental - State	1,557,457	53,327		204,246		1,815,030
Intergovernmental - Federal		121,075				121,075
Total revenue	3,262,238	246,966		257,137		3,766,341
Expenditures:						
Current:						
Instruction:						
Regular	1,214,345	39,767		23,369	$3,506	1,280,987
Special	102,677	112,947				215,624
Vocational	91,099					91,099
Support services:						
Pupil	86,933	2,361				89,294
Instructional staff	55,688	34,434				90,122
Board of education	5,346	659				6,005
Administration	595,153	20,037		262		615,452
Fiscal	147,182	2,101		1,813		151,096
Business	1,016					1,016
Operations and maintenance	238,222			156,765		394,987
Pupil transportation	214,470			32,408		246,878
Community services		20,289				20,289
Extracurricular activities	50,516	55,443				105,959
Debt service:						
Principal retirement			$10,000			10,000
Interest and fiscal charges.	14,843					14,843
Total expenditures	2,817,490	288,038	10,000	214,617	3,506	3,333,651
Excess (deficiency) of revenues over (under) expenditures	444,748	(41,072)	(10,000)	42,520	(3,506)	432,690
Other financing sources (uses):						
Operating transfers in	7,938	31,448	10,000			49,386
Operating transfers out	(43,174)	(14,076)				(57,250)
Other financing uses	(1,350)					(1,350)
Total other financing sources (uses)	(36,586)	17,372	10,000			(9,214)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing us	408,162	(23,700)	0	42,520	(3,506)	423,476
Fund balances, July 1	376,175	83,385	0	114,086	3,776	577,422
Fund balances, June 30	$784,337	$59,685	$0	$156,606	$270	$1,000,898

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			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	$1,525,000	$1,572,048	$47,048			
Earnings on investments	45,000	67,753	22,753			
Other local revenues	1,000	9,635	8,635	$83,250	$72,564	
Intergovernmental - State	1,344,703	1,557,457	212,754	57,792	53,345	(4,447)
Intergovernmental - Federal				124,950	120,272	(4,678)
Total revenues	2,915,703	3,206,893	291,190	265,992	246,181	(9,125)
Expenditures:						
Current:						
Instruction:						
Regular	1,232,139	1,231,694	445	43,067	42,859	208
Special	106,305	106,305	0	104,822	104,444	378
Vocational	90,782	90,775	7			
Support services:						
Pupil transportation	86,644	86,644	0	2,618	2,368	250
Instructional staff	55,536	55,536	0	41,725	39,585	2,140
Board of Education	5,361	5,361	0			
Administration	603,926	603,817	109	24,842	24,442	400
Fiscal	149,086	148,603	483	6,216	6,216	0
Business	1,016	1,016	0			
Operations and maintenance	246,059	243,540	2,519			
Pupil transportation	234,492	233,140	1,352			
Community service				22,362	21,691	671
Extracurricular activities	51,983	51,983	0	56,255	56,073	182
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total expenditures	2,863,329	2,858,414	4,915	301,907	297,678	4,229
Excess (deficiency) of revenues over (under) expenditures	52,374	348,479	296,105	(35,915)	(51,497)	(15,582)
Other financing sources (uses):						
Refund of prior year's expenditures	0	23,882	23,882			
Operating transfers in	0	44,458	44,458	41,184	44,455	3,271
Operating transfers (out)	(157,099)	(155,537)	1,562	(26,015)	(27,083)	(1,068)
Advances in						
Advances (out)	0	(8,676)	(8,676)			
Total other financing sources (uses)	(157,099)	(95,873)	61,226	15,169	17,372	2,203
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(104,725)	252,606	357,331	(20,746)	(34,125)	(13,379)
Fund balances, July 1	850,819	850,819	0	77,690	77,690	0
Prior year encumbrances appropriated	39,354	39,354	0	21,693	21,693	0
Fund balances, June 30	$785,448	$1,142,779	$357,331	$78,637	$65,258	($13,379)

(Continued)

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)
			$53,300	$52,731	($569)	$1,578,300	$1,624,779	$46,479
						45,000	67,753	22,753
			0	400	400	84,250	82,599	9,035
			157,827	204,246	46,419	1,560,322	1,815,048	254,726
						124,950	120,272	(4,678)
			211,127	257,377	46,250	3,392,822	3,710,451	328,315
			35,594	35,594	0	1,310,800	1,310,147	653
						211,127	210,749	378
						90,782	90,775	7
						89,262	89,012	250
						97,261	95,121	2,140
						5,361	5,361	0
			262	262	0	629,030	628,521	509
			1,831	1,831	0	157,133	156,650	483
						1,016	1,016	0
			210,977	210,977	0	457,036	454,517	2,519
			32,162	32,162	0	266,654	265,302	1,352
						22,362	21,691	671
						108,238	108,056	182
$71,000	$71,000	$0				71,000	71,000	0
14,843	14,843	0				14,843	14,843	0
85,843	85,843	0	280,826	280,826	0	3,531,905	3,522,761	9,144
(85,843)	(85,843)	0	(69,699)	(23,449)	46,250	(139,083)	187,690	326,773
						0	23,882	23,882
95,000	85,843	(9,157)				136,184	174,756	38,572
						(183,114)	(182,620)	494
			0	8,676	8,676	0	8,676	8,676
						0	(8,676)	(8,676)
95,000	85,843	(9,157)	0	8,676	8,676	(46,930)	16,018	62,948
9,157	0	(9,157)	(69,699)	(14,773)	54,926	(186,013)	203,708	389,721
0	0	0	120,156	120,156	0	1,048,665	1,048,665	0
0	0	0	10,626	10,626	0	71,673	71,673	0
$9,157	$0	($9,157)	$61,083	$116,009	$54,926	$934,325	$1,324,046	$389,721

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

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCE PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Total (Memorandum Only)
Operating revenues:			
Sales/charges for services	$79,169		$79,169
Investment earnings		$4,161	4,161
Total operating revenues	79,169	4,161	83,330
Operating expenses:			
Personal services	67,174		67,174
Contract services	246		246
Materials and supplies	83,688		83,688
Depreciation	3,070		3,070
Other operating expenses	433	10,000	10,433
Total operating expenses	154,611	10,000	164,611
Operating loss	(75,442)	(5,839)	(81,281)
Nonoperating revenues:			
Operating grants	58,937		58,937
Federal commodities	6,788		6,788
Other nonoperating revenues	2,093		2,093
Total nonoperating revenues	67,818		67,818
Net loss before operating transfers	(7,624)	(5,839)	(13,463)
Operating transfers in	7,864		7,864
Net income (loss)	240	(5,839)	(5,599)
Retained earnings/fund balance, July 1	9,909	216,531	226,440
Retained earnings/fund balance, June 30	$10,149	$210,692	$220,841

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

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

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	**Nonexpendable Trust**	**Total (Memorandum Only)**
Cash flows from operating activities:			
Cash received from sales/service charges	$79,169		$79,169
Cash payments for personal services	(65,541)		(65,541)
Cash payments for contract services	(246)		(246)
Cash payments supplies and materials	(79,454)		(79,454)
Cash payments for other expenses.		(10,000)	(10,000)
Net cash used in operating activities	(66,072)	(10,000)	(76,072)
Cash flows from noncapital financing activities:			
Cash received from operating grants	47,902		47,902
Cash received from nonoperating activities	2,093		2,093
Cash received operating transfers in	7,864		7,864
Net cash provided by noncapital financing activities	57,859		57,859
Cash flows from capital and related financing activities:			
Aquisition of capital assets	(628)		(628)
Net cash used in capital and related financing activities	(628)		(628)
Cash flows from investing activities:			
Interest received		8,051	8,051
Net cash provided by investing activities		8,051	8,051
Net decrease in cash and cash equivalents	(8,841)	(1,949)	(10,790)
Cash and cash equivalents at beginning of year	16,536	210,737	227,273
Cash and cash equivalents at end of year	$7,695	$208,788	$216,483
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	($75,442)	($5,839)	($81,281)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	3,070		3,070
Federal donated commodities	6,788		6,788
Interest reported as operating income		(4,161)	(4,161)
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(106)		(106)
Decrease in accounts payable	(2,055)		(2,055)
Decrease in accrued wages and benefits	(1,329)		(1,329)
Increase in compensated absences payable .	63		63
Increase in pension obligation payable.	2,899		2,899
Increase in deferred revenue	40		40
Net cash used in operating activities	($66,072)	($10,000)	($76,072)

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1. DESCRIPTION OF THE SCHOOL DISTRICT

Conotton Valley Union Local School District (" the District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the district's four instructional/support facilities staffed by 30 classified and 43 certificated full-time teaching personnel, who provide services to 557 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

1. Jointly Governed Organization

Ohio Mid-Eastern Regional Education Service Agency

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) is a not-for-profit computer service organization whose primary function is to provide information technology services to it member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The OME-RESA is one of twenty-three regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

The OME-RESA is owned and operated by forty-nine member school districts in ten different Ohio counties. The member school districts are comprised of public school districts and county boards of education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a board of directors which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the board of directors.

The OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

2. Public Entity Risk Pools

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Tuscarawas-Harrison County School Benefit Trust Health Consortium
The Tuscarawas-Harrison County School Benefit Trust Health Consortium (the Trust) is a public entity shared risk pool consisting of the District and two County Educational Service Centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 510(c)(9) of the Internal Revenue Code and provides sick, and in some cases, dental, vision, and prescription drug benefits to the employees of the participating entities. Each participating entity's Superintendent is appointed to an Administrative Committee which advises the Third-Party Administrator, CoreSource Insurance, concerning aspects of the administration of the Trust.

Each entity decides which plans offered by the Trustees will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from CoreSource, Inc., 229 Huber Village Blvd., Westerville, Ohio 43081.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

1. Governmental Fund Types

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

General Fund

The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of the State of Ohio.

Special Revenue Funds

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

Debt Service Fund

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

Capital Projects Funds

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

2. Proprietary Fund Types

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Funds

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

3. Fiduciary Funds

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, nonexpendable trust and an agency fund. The expendable trust fund is accounted for in the same manner as governmental funds. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3 for agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

4. Account Groups

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

C. Measurement Focus/Basis of Accounting

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

D. Budgets

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. By no later than January 20, the board-adopted budget is filed with the Harrison County Budget Commission for tax rate determination.

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 1999.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Board of Education.

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 1999.

8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

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

E. Cash and Investments

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

During fiscal year 1999, investments were limited to a certificate of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the nonexpendable trust fund. Interest revenue credited to the general fund during fiscal 1999 amounted to $67,753 which includes $18,884 assigned from other District funds. Interest revenue credited to the nonexpendable trust fund amounted to $4,161.

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

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

F. Inventory

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

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

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

2. Proprietary Funds

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

Asset	Life (years)
Furniture, fixtures and equipment	8-20

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

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

Entitlements

General Fund
- State Foundation Program
- State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds
- Community Wellness
- Ecoserc Grant
- Children First
- Entry Year Programs
- Management Information Systems
- Title VI-B
- Professional Development
- Title I
- Title VI
- Disadvantaged Pupil Impact Aid
- Textbook and Instructional Materials
- Eisenhower Grant
- Drug Free Grant
- EHA Preschool for the Handicapped
- Learn and Serve Telecommunications Grant
- Miscellaneous Federal Grants
- State Entry Year

Capital Projects Funds
- Permanent Improvement
- Technology Equity
- Emergency School Repair Program

Proprietary Funds
- Food Distribution Program

Reimbursable Grants

General Fund
- School Bus Purchase Reimbursement

Proprietary Funds
- National School Lunch Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 52% of the District's operating revenue during the 1999 fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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

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

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

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

J. Long-Term Obligations

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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, prepayments, tax advance unavailable for appropriation, principal endowment, budget stabilization, and textbooks. The reserve for tax advance unavailable for appropriation represents property taxes recognized as revenue under GAAP but not available for appropriations under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

L. Interfund Transactions

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

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

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”. The District had short-term interfund loans receivable and payable at June 30, 1999.

4. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 1999.

An analysis of interfund transactions is presented in Note 5.

M. Restricted Assets

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

N. Estimates

The preparation of GPFS in conformity with GAAP 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Prepaids

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

P. Total Columns on the General Purpose Financial Statements

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

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

	Deficit Balance
Special Revenue Funds	
Management Information Systems	$ (192)
Disadvantaged Pupil Impact Aid	(3,528)
Title II	(11,070)
Capital Projects Funds	
Technology Equity	(4)

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

The deficit fund balances in the Management Information Systems, Disadvantaged Pupil Impact Aid, and Title II special revenue funds are caused by accruing wage and compensated absence obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

The deficit fund balance in the Technology Equity capital projects fund is caused by accruing accounts payable in accordance with GAAP. This deficit will be eliminated by intergovernmental revenues not recognized at June 30.

B. Agency Fund

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

ASSETS	
Accounts receivable	$104

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on hand: At fiscal year end, the District had $260 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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

Deposits: At year end, the carrying amount of the District's deposits, including a nonnegotiable certificate of deposit, was $1,446,450 and the bank balance, including a nonnegotiable certificate of deposit, was $1,514,496. Of the bank balance:

1. $100,000 was covered by federal depository insurance.

2. $1,414,496 was uninsured and unregistered because it was secured by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

At June 30, 1999, the District had an investment of $238,417 in STAR Ohio. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9		
Investments of the cash management pool:	$ 1,476,339	$ 208,788
Investment in STAR Ohio	(238,417)	238,417
Certificate of deposit	208,788	(208,788)
Cash on hand	(260)	- - -
GASB Statement No. 3	$ 1,446,450	$ 238,417

5. INTERFUND TRANSACTIONS

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

	Transfers In	Transfers Out
General Fund	$ 7,938	$(43,174)
Special Revenue Funds		
Other Grants	3,710	(7,134)
Management Information Systems	5,653	- - -
Disadvantaged Pupil Impact Aid	15,131	- - -
Title I	3,390	- - -
Title VI-B	564	- - -
EHA Preschool for the Handicapped	- - -	(942)
Entry Year	3,000	(6,000)
Debt Service Fund	10,000	- - -
Enterprise Fund		
Food Service	7,864	- - -
Totals	$57,250	$(57,250)

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

5. INTERFUND TRANSACTIONS (Continued)

	Interfund Receivable	Interfund Payable
General Fund	$10,239	$ - - -
Capital Projects Funds		
Emergency School Building Repair	- - -	(8,676)
Enterprise Funds		
Uniform School Supplies	- - -	(774)
Agency Fund		
Student Managed Activity	- - -	(789)
Totals	$10,239	$(10,239)

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 $46,298,020. Agricultural/residential and public utility/minerals real estate represented 71.30% or $33,009,520 of this total; Commercial & industrial real estate represented 7.04% or $3,262,640 of this total, public utility tangible represented 16.30% or $7,546,560 of this total and general tangible property represented 5.36% or $2,479,300 of this total. The voted general tax rate at the fiscal year ended June 30, 1999 was $51.15 per $1,000.00 of assessed valuation for operations and $2.00 per $1,000.00 of assessed valuation for debt service.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The District receives property taxes from Harrison and Carroll Counties. The respective County Treasurers collect property taxes on behalf of the District. The respective County Auditors periodically remit to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1998. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of $42,300 was available to the District as an advance at June 30 and is recognized as revenue.

6. PROPERTY TAXES - (Continued)

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.

7. RECEIVABLES

Receivables at June 30, 1999, consisted of taxes, accrued interest, interfund loans, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "due from other governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds. A summary of the principal items of receivables follows:

	Amounts
General Fund	
Taxes - current and delinquent	$1,509,161
Interfund loan	10,239
Enterprise Funds	
Due from other governments	11,035
Special Revenue Funds	
Due from other governments	2,427
Capital Projects Funds	
Taxes - current	1,402

8. FIXED ASSETS

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

	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Land/ improvements	$ 163,792	$ - - -	$ - - -	$ 163,792
Buildings/ improvements	901,474	51,654	- - -	953,128
Furniture/ equipment	733,292	31,733	- - -	765,025
Vehicles	368,460	29,736	- - -	398,196
Total	$2,167,018	$113,123	$ - - -	$2,280,141

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

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

Furniture and equipment	$ 90,211
Less: accumulated depreciation	(83,457)
Net fixed assets	$ 6,754

9. LONG-TERM OBLIGATIONS

A. The District received a loan from the U.S. Environmental Protection Agency for an asbestos abatement project. The loan is interest free as long as the District remains current on repayment. The following schedule describes the loan:

Purpose	Interest Rate	Issue Date	Maturity Date	Loan Outstanding July 1, 1998	Retired in 1999	Loan Outstanding June 30, 1999
Asbestos Abatement	None	05/30/94	05/30/03	$46,555	$(10,000)	$36,555

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

Year Ending June 30,	Principal on EPA Loan	Interest on EPA Loan	Total
2000	$10,000	$ 0	$10,000
2001	10,000	0	10,000
2002	10,000	0	10,000
2003	6,555	0	6,555
Total	$36,555	$ 0	$36,555

C. During the year ended June 30, 1999, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences and the pension obligation payable will be paid from the fund in which the employee was paid.

	Balance July 1, 1998	Increase	Decrease	Balance June 30, 1999
Compensated absences	$ 76,582	$ 2,660	$ (593)	$ 78,649
Pension obligation payable	39,748	33,289	(39,748)	33,289
Asbestos loan payable	46,555	- - -	(10,000)	36,555
Total	$162,885	$35,949	$(50,341)	$148,493

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 1999 are a voted debt margin of $4,166,822 and an unvoted debt margin of $46,298.

10. NOTES PAYABLE

The tax anticipation note and all related transactions are reported in the general fund, the fund which received the proceeds. The following table details the District's note payable transactions for the year ended June 30, 1999:

	Interest Rate	Issue Date	Maturity Date	Balance July 1, 1998	Retired in 1999	Balance June 30, 1999
Tax anticipation	6.00%	06/17/96	12/01/02	$244,000	$(61,000)	$183,000

10. NOTES PAYABLE

The scheduled payments of principal and interest on the tax anticipation note is as follows:

Year Ending June 30,	Principal on Note	Interest on Note	Total
2000	$ 61,000	$10,980	$ 71,980
2001	61,000	7,320	68,320
2002	61,000	3,660	64,660
Total	$183,000	$21,960	$204,960

11. RISK MANAGEMENT

A. Comprehensive

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

Coverage	Insurer	Limits of Coverage	Deductible
General liability:	Nationwide/Wausau		
Each occurrence		$ 1,000,000	$1,000
Aggregate		$ 3,000,000	$1,000
Building and contents	Indiana Insurance Co.	$10,468,891	$1,000
Fleet:	Harcum-Hyre		
Comprehensive/liability		$ 2,000,000	$ 0
Collision		$ 2,000,000	$ 100

B. OSBA Group Workers Compensation Rating Program

For fiscal year 1999, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

11. RISK MANAGEMENT (Continued)

C. Group Health Insurance

The District has elected to provide health care benefits to employees and administrators through the Tucsarawas-Harrison County School Benefit Trust Health Consortium. The employees share the cost of the monthly premium with the Board.

12. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies and a youth center. 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	Youth Center	Total
Operating revenue	$ 78,436	$ 733	$ - - -	$ 79,169
Operating expenses before depreciation	149,328	1,416	797	151,541
Depreciation	3,070	- - -	- - -	3,070
Operating loss	(73,962)	(683)	(797)	(75,442)
Operating grants	58,937	- - -	- - -	58,937
Federal commodities	6,788	- - -	- - -	6,788
Net income (loss)	(8,156)	(683)	1,215	(7,624)
Net working capital	2,673	5,099	1,822	9,594
Total assets	20,258	5,873	1,822	27,953
Total liabilities	17,030	774	- - -	17,804
Total equity	3,228	5,099	1,822	10,149
Encumbrances at 6/30/99	- - -	- - -	- - -	- - -

13. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $53,125,

13. DEFINED BENEFIT PENSION PLANS (Continued)

$58,999, and $53,837, respectively; 30.0 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. $37,170, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $192,913, $181,340, and $166,935, respectively; 82.9 percent has been contributed for fiscal year 1999 and 100 percent the fiscal years 1998 and 1997. $32,796, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the 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. The Board's liability is 6.2 percent of wages paid.

14. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled $110,236 during fiscal 1999.

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

14. POSTEMPLOYMENT BENEFITS (Continued)

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

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

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were $111.9 million and the target level was $139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of $160.3 million and had approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled $48,693 during the 1999 fiscal year.

15. BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

(a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

15. BUDGETARY BASIS OF ACCOUNTING (Continued)

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses

Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Project
Budget basis	$252,606	$(34,125)	$ 0	$(14,773)
Net adjustment for revenue accruals	55,345	785	- - -	(240)
Net adjustment for expenditure accruals	1,302	(776)	75,843	(21,374)
Net adjustment for other financing sources (uses)	59,287	- - -	(75,843)	(8,676)
Encumbrances (budget basis)	39,622	10,416	- - -	87,583
GAAP basis	$408,162	$(23,700)	$ 0	$ 42,520

16. CONTINGENCIES

A. Grants

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

B. Litigation

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

C. School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received $1,369,200 of school foundation support for its general fund.

16. CONTINGENCIES (Continued)

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

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

17. STATUTORY RESERVES

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of June 30, 1998	$ 0	$ 0	$14,542
Current year set-aside requirement	47,763	47,763	23,882
Current year offsets	(7,808)	(55,470)	0
Qualifying disbursements	(36,814)	(31,327)	0
Total	$ 3,141	$(39,034)	$38,424
Cash balance carried forward to FY 2000	$ 3,141	$ 0	$38,424

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	$38,424
Amount restricted for textbooks	3,141
Total restricted assets	$41,565

18. YEAR 2000 ISSUE

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

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

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

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

- The payroll processing software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1997 release of USPS V4.0.

- The accounting software supported with the OECN State Software is compliant with the Year 2000 beginning with the June 1998 release of USAS V6.1.

- The education management information system software supported with the OECN State Software is compliant with the Year 2000 beginning with the September 1998 release of EMIS V1.7.

Harrison County and Carroll County collect property taxes for distribution to the District. They are responsible for remediating its tax collection system.

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

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

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

Conotton Valley Union Local School District
Harrison County
7205 Cumberland Road
Bowerston, Ohio 44695

To the Board of Education:

We have audited the financial statements of Conotton Valley Union Local School District, Harrison County, (the District) as of and for the year ended June 30, 1999 and have issued our report thereon dated November 29, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to management of the District in a separate letter dated November 29, 1999.

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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. A reportable condition is described in the accompanying schedule of finding as item 1999-11234-01.

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, we believe the reportable condition described above is not a material weakness.

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

JIM PETRO
Auditor of State

November 29, 1999

SCHEDULE OF FINDINGS
JUNE 30, 1999

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

Finding Number	**1999-11234-01**

Checks were not issued in sequential order. The treasurer's office did not always utilize all checks in a batch and would often start a new sequence when ten or more checks were left in the original batch. The unused checks were kept in a locked closet and were often used when it became necessary to issue a check manually. In some cases there was a large disparity in the number sequencing. This weakens the control over the disbursement cycle and increases the possibility of theft and/or fraud.

To strengthen internal control over the disbursement cycle, the treasurer should issue all checks in sequence so that the check register will account for each check number.

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CONOTTON VALLEY LOCAL SCHOOL DISTRICT

HARRISON 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
JANUARY 18, 2000