



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Eastern Local School District, Brown County, Ohio (the District), as of and for the fiscal 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 Eastern Local School District, Brown County, Ohio, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type 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 February 25, 2000, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

February 25, 2000

Eastern Local School District

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**Eastern Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1999**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,579,583	\$197,064	\$366,343	\$407,902
Cash and Cash Equivalents In Segregated Accounts	0	0	0	16,462
Receivables:				
Taxes	2,692,951	50,145	391,049	81,051
Accounts	2,546	0	0	0
Intergovernmental	1,085	33,999	0	0
Interfund Receivable	772	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	22,129	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	129,347	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<u>Other Debits:</u>				
Amount Available in Debt Service Fund for the Retirement of General Obligations	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	\$4,428,413	\$281,208	\$757,392	\$505,415

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$138,351	\$11,478	\$0	\$0	\$2,700,721
0	0	0	0	16,462
0	0	0	0	3,215,196
238	0	0	0	2,784
0	0	0	0	35,084
0	0	0	0	772
1,901	0	0	0	1,901
45	0	0	0	22,174
0	0	0	0	129,347
236,836	0	16,871,524	0	17,108,360
0	0	0	417,351	417,351
0	0	0	3,434,256	3,434,256
<u>\$377,371</u>	<u>\$11,478</u>	<u>\$16,871,524</u>	<u>\$3,851,607</u>	<u>\$27,084,408</u>

(continued)

**Eastern Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1999**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities:</u>				
<u>Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$6,179	\$0	\$0	\$0
Accrued Wages and Benefits	664,724	56,107	0	0
Compensated Absences Payable	16,993	0	0	0
Retainage Payable	0	0	0	16,462
Interfund Payable	0	772	0	0
Intergovernmental Payable	118,811	15,633	0	0
Deferred Revenue	2,363,787	43,605	340,041	71,290
Undistributed Monies	0	0	0	0
General Obligation Bonds	0	0	0	0
Total Liabilities	<u>3,170,494</u>	<u>116,117</u>	<u>340,041</u>	<u>87,752</u>
<u>Fund Equity and Other Credits:</u>				
Investments in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	242,919	7,521	0	29,817
Reserved for Inventory	22,129	0	0	0
Reserved for Property Taxes	329,164	6,540	51,008	9,761
Reserved for Budget Stabilization	90,656	0	0	0
Reserved for School Bus Purchases	38,691	0	0	0
Unreserved:				
Undesignated	534,360	151,030	366,343	378,085
Total Fund Equity and Other Credits	<u>1,257,919</u>	<u>165,091</u>	<u>417,351</u>	<u>417,663</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$4,428,413</u>	<u>\$281,208</u>	<u>\$757,392</u>	<u>\$505,415</u>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$65	\$0	\$0	\$0	\$6,244
19,071	0	0	0	739,902
18,697	0	0	550,369	586,059
0	0	0	0	16,462
0	0	0	0	772
15,685	0	0	61,238	211,367
1,125	0	0	0	2,819,848
0	7,874	0	0	7,874
0	0	0	3,240,000	3,240,000
<u>54,643</u>	<u>7,874</u>	<u>0</u>	<u>3,851,607</u>	<u>7,628,528</u>
0	0	16,871,524	0	16,871,524
242,464	0	0	0	242,464
80,264	0	0	0	80,264
0	0	0	0	280,257
0	0	0	0	22,129
0	0	0	0	396,473
0	0	0	0	90,656
0	0	0	0	38,691
0	3,604	0	0	1,433,422
<u>322,728</u>	<u>3,604</u>	<u>16,871,524</u>	<u>0</u>	<u>19,455,880</u>
<u>\$377,371</u>	<u>\$11,478</u>	<u>\$16,871,524</u>	<u>\$3,851,607</u>	<u>\$27,084,408</u>

*Eastern Local School District
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 1999*

	Governmental Fund Types				Fiduciary	Totals
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Expendable Trust	(Memorandum Only)
<u>Revenues:</u>						
Property Taxes	\$2,133,881	\$40,389	\$315,031	\$63,435	\$0	\$2,552,736
Intergovernmental	5,169,437	526,846	35,436	60,466	0	5,792,185
Interest	145,225	0	0	2,449	0	147,674
Tuition and Fees	43,486	6,195	0	0	0	49,681
Rent	4,974	0	0	0	0	4,974
Extracurricular Activities	0	68,829	0	0	17,051	85,880
Gifts and Donations	500	0	0	0	0	500
Customer Services	0	142,016	0	0	0	142,016
Miscellaneous	16,507	0	0	4,592	0	21,099
Total Revenues	7,514,010	784,275	350,467	130,942	17,051	8,796,745
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	3,223,621	130,305	0	0	0	3,353,926
Special	477,951	332,567	0	0	0	810,518
Vocational	149,415	0	0	0	0	149,415
Other	23,590	31,630	0	0	0	55,220
Support Services:						
Pupils	321,689	18,620	0	0	0	340,309
Instructional Staff	455,992	68,605	0	0	0	524,597
Board of Education	190,417	0	0	0	0	190,417
Administration	725,333	14,290	0	0	0	739,623
Fiscal	278,632	7,412	8,790	0	0	294,834
Business	5,860	0	0	0	0	5,860
Operation and Maintenance of Plant	673,123	53,891	0	0	0	727,014
Pupil Transportation	516,010	4,950	0	0	0	520,960
Central	19,011	0	0	0	0	19,011
Non-Instructional Services	67,427	0	0	0	0	67,427
Extracurricular Activities	70,023	69,683	0	0	15,552	155,258
Capital Outlay	4,098	0	0	364,753	0	368,851
Debt Service:						
Principal Retirement	0	0	40,000	0	0	40,000
Interest and Fiscal Charges	0	0	203,750	0	0	203,750
Total Expenditures	7,202,192	731,953	252,540	364,753	15,552	8,566,990
Excess of Revenues Over (Under) Expenditures	311,818	52,322	97,927	(233,811)	1,499	229,755
<u>Other Financing Sources:</u>						
Proceeds from Sale of Fixed Assets	10,112	0	0	0	0	10,112
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	321,930	52,322	97,927	(233,811)	1,499	239,867
Fund Balances at Beginning of Year - Restated (Note 21)	928,006	112,769	319,424	651,474	2,105	2,013,778
Increase in Reserve for Inventory	7,983	0	0	0	0	7,983
Fund Balances at End of Year	\$1,257,919	\$165,091	\$417,351	\$417,663	\$3,604	\$2,261,628

See accompanying notes to the general purpose financial statements

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Eastern Local School District
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$2,098,661	\$2,020,997	(\$77,664)	\$37,437	\$38,218	\$781
Intergovernmental	5,347,013	5,168,987	(178,026)	495,687	494,067	(1,620)
Interest	147,000	145,225	(1,775)	0	0	0
Tuition and Fees	35,299	45,634	10,335	5,215	5,215	0
Rent	4,974	4,974	0	0	0	0
Extracurricular Activities	0	0	0	65,276	68,589	3,313
Gifts and Donations	0	500	500	0	0	0
Customer Services	0	0	0	142,016	142,016	0
Miscellaneous	12,488	12,995	507	0	0	0
Total Revenues	7,645,435	7,399,312	(246,123)	745,631	748,105	2,474
Expenditures:						
Current:						
Instruction:						
Regular	3,420,139	3,184,639	235,500	167,913	117,385	50,528
Special	512,128	468,199	43,929	349,339	313,148	36,191
Vocational	158,829	146,073	12,756	0	0	0
Other	23,590	23,590	0	34,610	31,918	2,692
Support Services:						
Pupils	335,512	311,262	24,250	21,507	18,620	2,887
Instructional Staff	490,846	446,426	44,420	85,090	72,377	12,713
Board of Education	240,150	191,035	49,115	0	0	0
Administration	816,479	743,404	73,075	25,097	14,290	10,807
Fiscal	301,467	276,109	25,358	9,203	7,412	1,791
Business	9,000	5,860	3,140	0	0	0
Operation and Maintenance of Plant	1,453,477	725,056	728,421	83,073	55,383	27,690
Pupil Transportation	784,882	677,412	107,470	4,950	4,950	0
Central	47,055	21,470	25,585	0	0	0
Non-Instructional Services	75,285	71,674	3,611	0	0	0
Extracurricular Activities	96,637	69,311	27,326	87,775	75,333	12,442
Capital Outlay	22,513	18,098	4,415	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	8,787,989	7,379,618	1,408,371	868,557	710,816	157,741
Excess of Revenues Over (Under) Expenditures	<u>(1,142,554)</u>	<u>19,694</u>	<u>1,162,248</u>	<u>(122,926)</u>	<u>37,289</u>	<u>160,215</u>
Other Financing Sources (Uses):						
Proceeds from the Sale of Fixed Assets	10,035	10,112	77	0	0	0
Refund of Prior Year Expenditures	4,915	4,915	0	0	0	0
Advances In	41,231	0	(41,231)	0	0	0
Advances Out	(254,222)	0	254,222	(108)	0	108
Operating Transfers In	191,880	0	(191,880)	0	0	0
Operating Transfers Out	(185,702)	0	185,702	0	0	0
Total Other Financing Sources (Uses)	(191,863)	15,027	206,890	(108)	0	108
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(1,334,417)</u>	<u>34,721</u>	<u>1,369,138</u>	<u>(123,034)</u>	<u>37,289</u>	<u>160,323</u>
Fund Balances at Beginning of Year	1,388,288	1,388,288	0	151,933	151,933	0
Prior Year Encumbrances Appropriated	<u>37,544</u>	<u>37,544</u>	<u>0</u>	<u>321</u>	<u>321</u>	<u>0</u>
Fund Balances at End of Year	\$91,415	\$1,460,553	\$1,369,138	\$29,220	\$189,543	\$160,323

See accompanying notes to the general purpose financial statements

Debt Service Fund			Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$292,011	\$298,097	\$6,086	\$59,782	\$60,083	\$301	\$0	\$0	\$0
26,400	35,436	9,036	117,690	60,466	(57,224)	0	0	0
0	0	0	2,449	2,449	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	25,700	17,051	(8,649)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	4,592	4,592	0	0	0	0
<u>318,411</u>	<u>333,533</u>	<u>15,122</u>	<u>184,513</u>	<u>127,590</u>	<u>(56,923)</u>	<u>25,700</u>	<u>17,051</u>	<u>(8,649)</u>
0	0	0	258,133	140,413	117,720	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	23,854	23,854	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
21,250	8,790	12,460	2,900	1,778	1,122	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	120,766	22,721	98,045	0	0	0
0	0	0	100,000	0	100,000	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	23,365	15,552	7,813
0	0	0	498,293	418,448	79,845	0	0	0
60,000	40,000	20,000	0	0	0	0	0	0
263,750	203,750	60,000	0	0	0	0	0	0
<u>345,000</u>	<u>252,540</u>	<u>92,460</u>	<u>1,003,946</u>	<u>607,214</u>	<u>396,732</u>	<u>23,365</u>	<u>15,552</u>	<u>7,813</u>
<u>(26,589)</u>	<u>80,993</u>	<u>107,582</u>	<u>(819,433)</u>	<u>(479,624)</u>	<u>7</u>	<u>2,335</u>	<u>1,499</u>	<u>(836)</u>
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
(26,589)	80,993	107,582	(819,433)	(479,624)	339,809	2,335	1,499	(836)
285,350	285,350	0	527,160	527,160	0	2,105	2,105	0
0	0	0	330,548	330,548	0	0	0	0
<u>\$258,761</u>	<u>\$366,343</u>	<u>\$107,582</u>	<u>\$38,275</u>	<u>\$378,084</u>	<u>\$339,809</u>	<u>\$4,440</u>	<u>\$3,604</u>	<u>(\$836)</u>

***Eastern Local School District
Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Fiscal Year Ended June 30, 1999***

	Enterprise
<u>Operating Revenues:</u>	
Sales	\$213,679
Other Revenues	356
Total Operating Revenues	214,035
<u>Operating Expenses:</u>	
Salaries	128,670
Fringe Benefits	14,780
Purchased Services	118
Materials and Supplies	15,782
Cost of Sales	184,064
Depreciation	18,200
Total Operating Expenses	361,614
Operating Loss	(147,579)
<u>Non-Operating Revenues:</u>	
Federal Donated Commodities	31,204
Federal and State Subsidies	118,816
Interest	1,848
Total Non-Operating Revenues	151,868
Net Income	4,289
Retained Earnings at Beginning of Year	75,975
Retained Earnings at End of Year	80,264
Contributed Capital at Beginning and End of Year	242,464
Total Fund Equity at End of Year	\$322,728

See accompanying notes to the general purpose financial statements

Eastern Local School District
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Proprietary Fund Type
For the Fiscal Year Ended June 30, 1999

	Enterprise Funds		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<u>Revenues:</u>			
Sales	\$209,422	\$214,002	\$4,580
Federal and State Subsidies	121,617	118,816	(2,801)
Interest	0	1,848	1,848
Other Revenues	79	113	34
Refund of Prior Year Expense	6	6	0
Total Revenues	331,124	334,785	3,661
<u>Operating Expenses:</u>			
Salaries	158,000	129,635	28,365
Fringe Benefits	1,600	1,257	343
Purchased Services	200	118	82
Materials and Supplies	267,007	168,198	98,809
Total Operating Expenses	426,807	299,208	127,599
Excess of Revenues			
Over (Under) Expenses	(95,683)	35,577	131,260
Fund Equity at Beginning of Year	99,678	99,678	0
Fund Equity at End of Year	\$3,995	\$135,255	\$131,260

See accompanying notes to the general purpose financial statements

*Eastern Local School District
Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 1999*

	Enterprise
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$214,002
Cash Received from Other Operating Sources	119
Cash Payments to Suppliers for Goods and Services	(165,220)
Cash Payments to Employees for Services	(129,635)
Cash Payments for Employee Benefits	(1,257)
Net Cash Used for Operating Activities	(81,991)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	118,816
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	1,848
Net Increase in Cash and Cash Equivalents	38,673
Cash and Cash Equivalents at Beginning of Year	99,678
Cash and Cash Equivalents at End of Year	\$138,351
<u>Reconciliation of Operating Loss to Net</u>	
<u>Cash Used for Operating Activities:</u>	
Operating Loss	(\$147,579)
<u>Adjustments to Reconcile Operating</u>	
<u>Loss to Net Cash Used for Operating Activities:</u>	
Depreciation	18,200
Donated Commodities Used During Year	31,204
<u>Changes in Assets and Liabilities:</u>	
Decrease in Accounts Receivable	85
Decrease in Inventory Held for Resale	3,573
Increase in Materials and Supplies Inventory	(8)
Decrease in Accounts Payable	(25)
Increase in Accrued Wages and Benefits	1,764
Decrease in Compensated Absences Payable	(2,728)
Increase in Intergovernmental Payable	13,523
Total Adjustments	65,588
Net Cash Used for Operating Activities	(\$81,991)

See accompanying notes to the general purpose financial statements

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Eastern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 75 square miles. It is located in Brown County and includes the Villages of Macon and Russellville and various townships within the County. The School District is the 364th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by 77 non-certified and 98 teaching personnel and administrative employees providing education to 1,552 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Eastern Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The Eastern Local School District financial statements include activity of the Brown County Collaborative Alternative Program School (CAPS) within the special revenue fund type. Brown County CAPS was organized to provide educational programs for at-risk students. Participating districts' superintendents (Eastern Local, Ripley-Union-Lewis-Huntington Local and Georgetown Exempted Village) serve as an advisory committee to recommend salary amounts for the Brown County CAPS Director and other teachers or employees involved with the program and to approve expenditure levels and curriculum requirements. Students participating in this educational program are included in the average daily membership of the district in which they are enrolled.

Entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District. These entities include the Boosters Club, Parent Teacher Organizations, and Alumni Associations.

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY
(Continued)

The School District is associated with four organizations, two of which are defined as a jointly governed organizations, one as an insurance purchasing pool, and one as a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), Hopewell Special Education Regional Resource Center (Hopewell), the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Brown County Schools Benefits Consortium. These organizations are presented in Notes 14, 15 and 16 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Local School 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 School 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 more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are the School District's governmental fund types:

General Fund - The general fund is the operating fund of the School 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 School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditure 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 obligation principal, interest, and related costs.

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

Proprietary Fund Type:

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

Enterprise Fund - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent 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 where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a general nature, the following account groups are used:

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

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

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

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, tuition, student fees, charges for services, and grants.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District reports deferred revenues 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. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Brown County Budget Commission for rate determination.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, 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. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, 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 at any level of control. 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.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District (except for segregated cash) is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. Retainage accounts held until the completion of major construction projects have been held in separate bank accounts and are presented as "Cash and Cash Equivalents in Segregated Accounts."

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

Nonparticipating investment contracts such as repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$145,225, which includes \$47,981 assigned from other School District funds. The capital projects funds and enterprise fund also received interest revenue of \$2,449 and \$1,848, respectively.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food and purchased food held for resale, and supplies and are expensed when used.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary fund are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund is computed using the straight-line method over an estimated useful life of ten to twenty years.

G. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues 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 revenues in the accounting period in which they are earned and become measurable.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief
School Bus Purchase Reimbursement

Special Revenue

Disadvantaged Pupil Impact Aid

Non-Reimbursable Grants

Special Revenue Funds

Other Grants
Education Management Information Systems
Title I
Title VI
Title VI-B
Professional Development Block Grant
School Net Trainers Grant
Text Book Fund
Performance Incentive

Capital Projects

School Net
School Net Plus
Technology Equity
Interactive Video Distance Learning

Reimbursable Grants

General Fund

Driver Education

Special Revenue Fund

Telecommunications Act Grant

Proprietary Fund

National School Lunch Program
National School Breakfast Program
Government Donated Commodities

Grants and entitlements received in governmental funds amounted to approximately 65.8 percent of governmental fund revenue during the 1999 fiscal year.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Short-Term Interfund Assets/Liabilities

Short-term interfund loans are classified as “interfund receivables” and “interfund payables” on the balance sheet.

I. Compensated Absences

Vacation leave benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of current service with the School District. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year end are considered not to have used current available financial resources. Bonds are reported as a liability in the general long-term obligations account group until due.

Long-term obligations financed by the proprietary fund are reported as liabilities in the proprietary fund.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, property taxes, budget stabilization, and school bus purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside by the School District to create a reserve for budget stabilization. See Note 18 for the calculations of the year-end restricted asset balances and the corresponding fund balance reserves.

N. 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Contributed Capital

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

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1995, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (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 cash flows 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

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

<u>Special Revenue Funds</u>	<u>Amounts</u>
School Net Professional Development	\$44
Title VI	76

The deficits in these funds are due to adjustments for accrued liabilities, and the timing of grant awards. The general fund is liable for the deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)-All Governmental Fund Types and Expendable Trust Fund and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis)-Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

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

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$321,930	\$52,322	\$97,927	(\$233,811)	\$1,499
Adjustments:					
Revenue Accruals	(109,783)	(36,170)	(16,934)	(3,352)	0
Expenditure Accruals	70,951	28,658	0	(212,643)	0
Encumbrances	(248,377)	(7,521)	0	(29,818)	0
Budget Basis	<u>\$34,721</u>	<u>\$37,289</u>	<u>\$80,993</u>	<u>(\$479,624)</u>	<u>\$1,499</u>

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Income/Excess of Revenues Over Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	\$4,289
Adjustments:	
Revenue Accruals	86
Expense Accruals	16,098
Depreciation Expense	18,200
Encumbrances	(3,096)
Budget Basis	\$35,577

NOTE 5 - DEPOSITS 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 that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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 the 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) 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 eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of the purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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.

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 fiscal year-end, the carrying amount of the School District's deposits was \$127,389 and the bank balance was \$270,181. Of the bank balance:

1. \$162,417 was covered by federal depository insurance; and
2. \$107,764 was uninsured and uncollateralized. Although all statutory requirements for the deposit of the money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Unclassified	Carrying Value	Fair Value
STAR Ohio	\$0	\$2,172,999	\$2,172,999	\$2,172,999
Repurchase Agreements	546,142	0	546,142	546,142
	<u>\$546,142</u>	<u>\$2,172,999</u>	<u>\$2,719,141</u>	<u>\$2,719,141</u>

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

NOTE 5 - DEPOSITS 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 Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,846,530	\$0
Investments:		
STAR Ohio	(2,172,999)	2,172,999
Repurchase Agreements	(546,142)	546,142
GASB Statement No. 3	\$127,389	\$2,719,141

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 1999 for real and public utility property taxes represents collections of calendar 1998 taxes. Property tax payments received during calendar 1999 for tangible personal property (other than public utility property) is for calendar 1999 taxes.

1999 real property taxes are levied after April 1, 1999, on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 1999 public utility property taxes became a lien December 31, 1998, are levied after April 1, 1999 and are collected in 2000 with real property taxes. 1999 tangible personal property taxes are levied after April 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are twenty-five percent of true value.

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

NOTE 6 - PROPERTY TAXES (Continued)

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which the fiscal year 1999 taxes were collected are:

	<u>1998 Second- Half Collections</u>		<u>1999 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$67,604,610	82.80%	\$69,788,480	83.26%
Public Utility	88,020	0.11%	97,820	0.12%
Tangible Personal Property	<u>13,951,610</u>	<u>17.09%</u>	<u>13,931,920</u>	<u>16.62%</u>
Total Assessed Value	<u><u>\$81,644,240</u></u>	<u><u>100.00%</u></u>	<u><u>\$83,818,220</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$44.50		\$44.50	

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible 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, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$329,164 for the General Fund, \$6,540 for the Special Revenue Fund, \$51,008 for the Debt Service Fund, and \$9,761 for the Capital Projects Fund. All amounts are recognized as revenue in their respective funds.

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999, consisted of property taxes, accounts (tuition, charges for services, and student fees), interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds. Student fees are also considered collectible in full due to the withholding of diplomas and grade cards.

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

NOTE 7 - RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

<u>General Fund:</u>	<u>Amounts</u>
Driver's Education	\$1,085
<u>Special Revenue Funds:</u>	
Alternative School	980
District Managed Activities	240
Title I	32,779
Total Special Revenue Funds	33,999
Total Intergovernmental Receivables	<u><u>\$35,084</u></u>

NOTE 8 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 1999 follows:

Furniture and Equipment	\$348,434
Less Accumulated Depreciation	<u>(111,598)</u>
Net Fixed Assets	<u><u>\$236,836</u></u>

A summary of the changes in general fixed assets during fiscal year 1999 follows:

<u>Asset Category</u>	<u>Balance at June 30,1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30,1999</u>
Land	\$376,867	\$1,438	\$19,677	\$358,628
Buildings and Improvements	13,250,961	4,098	277,725	12,977,334
Furniture, Fixtures and Equipment	2,470,897	160,107	5,510	2,625,494
Vehicles	1,037,988	0	127,920	910,068
Totals	<u><u>\$17,136,713</u></u>	<u><u>\$165,643</u></u>	<u><u>\$430,832</u></u>	<u><u>\$16,871,524</u></u>

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

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 1999, the School District contracted with Nationwide Insurance Company for general liability insurance with a \$1,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by the Nationwide Insurance Company and holds a \$1,000 deductible. The School District's vehicles are covered by the Nationwide Insurance Company and holds a \$250 deductible for both comprehensive and collision with a \$1,000,000 limit on any accident. Vehicles are also covered under the commercial umbrella policy.

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

For fiscal year 1999, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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.

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk pool (Note 16) consisting of seven districts. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions and all claims of its employees from the date of termination, regardless of the date such claims were incurred.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$136,348, \$121,377 and \$94,927, respectively; 67.44 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$44,401 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 School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$206,470, \$355,828 and \$359,959, respectively; 81.22 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$38,767 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the School District, this amount equaled \$275,293 for fiscal year 1999.

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

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

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

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$129,413.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 days of sick leave for each year under contract. Sick leave may be accumulated up to a maximum of 200 days for teachers and classified personnel. Administrators with a 242 day contract may accumulate up to a maximum of 266 days, with a 222 day contract may accumulate up to a maximum of 244 days, and with a 202 day contract may accumulate up to 222 days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 50 days for teachers, administrators, and classified personnel.

B. Other Employee Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource. Dental insurance is provided by the School District to all employees through CoreSource. Vision insurance is provided by the School District to all employees through Vision Service Plan.

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

NOTE 13 - LONG-TERM OBLIGATIONS

The change in the School District's long-term obligations during the fiscal year 1999 were as follows:

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
School Construction/Remodeling Bonds 199 6.25%	\$3,280,000	\$0	\$40,000	\$3,240,000
Intergovernmental Payable (Pension Obligation)	85,663	61,238	85,663	61,238
Compensated Absences	509,386	40,983	0	550,369
Total General Long-Term Obligations	<u>\$3,875,049</u>	<u>\$102,221</u>	<u>\$125,663</u>	<u>\$3,851,607</u>

School Construction/Remodeling Bonds

On March 1, 1995, the Eastern Local School District issued \$3,340,000 in voted general obligation bonds as a result of the School District being approved for a \$8,050,000 school facilities loan through the State Department of Education for the purpose of constructing, remodeling, reconstructing and adding to school buildings. The School District issued the general obligation bonds to provide a partial cash match for the school facilities loans. As a requirement of the loans, the School District was required to pass a 4.4 mill levy, of which .5 mill was to be used for the retirement of the loan, with the balance of 3.9 mills to be used for the retirement of the 1995 bond issue. The bonds were issued for a 23 year period with final maturity in 2018.

On October 7, 1997, the School District was notified by the Ohio School Facilities Commission that they would not be responsible for repaying the remainder of the \$9,044,939 classroom facilities loan to the State because the School District's adjusted valuation per pupil (currently 548 out of 611 schools) was less than the state-wide median adjusted valuation per pupil. In lieu of the repayment, the School District must set aside the funds that would have been used for repayment for facilities maintenance. As part of this process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the School District's adjusted valuation per pupil increases above the state-wide median adjusted valuation during the twenty-three year period, the School District may become responsible for repayment of a portion of the State's contribution.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences and intergovernmental payables will be paid from the funds from which the employees' salaries are paid.

The School District's voted legal debt margin was \$4,720,991 with an unvoted debt margin of \$83,818 at June 30, 1999.

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

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt at June 30, 1999 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$50,000	\$200,938	\$250,938
2001	60,000	197,500	257,500
2002	75,000	193,281	268,281
2003	105,000	187,656	292,656
2004	110,000	180,938	290,938
2005-2009	670,000	787,501	1,457,501
2010-2014	1,010,000	534,376	1,544,376
2015-2018	1,160,000	150,626	1,310,626
Totals	<u>\$3,240,000</u>	<u>\$2,432,816</u>	<u>\$5,672,816</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the eight participating counties, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$6,292 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Hopewell Special Education Regional Resource Center (Hopewell)

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the county board of education, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and Federal and State grants.

NOTE 15 - INSURANCE PURCHASING POOL

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

NOTE 16 - PUBLIC ENTITY SHARED RISK POOL

The Brown County Schools Benefits Consortium, a public entity shared risk pool currently operates to provide health insurance coverage to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley Union Lewis Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Board of Education to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health insurance for the benefit of the consortium members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The District pays premiums based on what the consortium estimates will cover the costs of all claims for which the consortium is obligated. If the District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the District's claims are low, it will not receive a refund. The consortium views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information write to the Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

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

NOTE 17 - STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$4,894,584 of school foundation support for its general fund.

In addition, the Court declared the classroom facilities program unconstitutional, because, in the Court's opinion, the program had not been sufficiently funded by the State. The classroom facilities program provided money to build schools and furnish classrooms. As of June 30, 1999, the School District had received a total grant of \$9,130,000 under this program.

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 the date of this report, 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 these programs and on its financial operations.

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization, along with a school bus purchase reserve. Disclosure of this information is required by State statute.

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

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 1998	\$0	\$0	\$36,759	\$36,759
Current Year Set-aside Requirement	107,795	107,795	53,897	269,487
Current Year Offsets	(22,167)	(60,083)	0	(82,250)
Qualifying Disbursements	<u>(85,628)</u>	<u>(47,712)</u>	<u>0</u>	<u>(133,340)</u>
Set-aside Cash Balance as of June 30, 1999	<u>\$0</u>	<u>\$0</u>	<u>\$90,656</u>	<u>\$90,656</u>
Amount restricted for bus purchases				<u>38,691</u>
Total Restricted Assets				<u><u>\$129,347</u></u>

Amounts of offsets and qualifying disbursements presented in the tables were limited to those necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements during the year, these extra amounts may not be used to reduce the set-aside requirements of future years, and are therefore not presented.

NOTE 19 - INTERFUND ACTIVITY

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$772</u>	<u>\$0</u>
Special Revenue Fund:		
Title VI	<u>0</u>	<u>772</u>
Total All Funds	<u><u>\$772</u></u>	<u><u>\$772</u></u>

NOTE 20 - CONTINGENCIES

A. Grants:

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

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

NOTE 21 - PRIOR YEAR RESTATEMENT

For 1999, the School Net fund has been reclassified from a special revenue fund to a capital projects fund. This reclassification resulted in the following restatement of beginning fund balances:

	<u>Amount at 6/30/98</u>	<u>Restated Amount</u>
Special Revenue Funds	\$267,753	\$112,769
Capital Projects Funds	496,490	651,474

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SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 1999

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$31,411	\$0	\$31,203
National School Lunch Program	03-PU-98	10.555	3,642	0	3,642	0
	03-PU-99	10.555	22,434	0	22,434	0
	04-PU-98	10.555	12,555	0	12,555	0
	04-PU-99	10.555	74,446	0	74,446	0
Total U.S. Department of Agriculture - Nutrition Cluster			<u>113,077</u>	<u>31,411</u>	<u>113,077</u>	<u>31,203</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States (IDEA Part B)	6B-SF-98	84.027	\$0	0	\$2,637	0
	6B-SF-99	84.027	55,752	0	51,333	0
			<u>55,752</u>	<u>0</u>	<u>53,970</u>	<u>0</u>
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-98	84.010	0	0	54,791	0
	C1-S1-98-C	84.010	29,250	0	39,345	0
	C1-S1-99	84.010	289,169	0	248,136	0
			<u>318,419</u>	<u>0</u>	<u>342,272</u>	<u>0</u>
Innovative Educational Program Strategies	C2-S1-98	84.298	0	0	4,895	0
	C2-S1-99	84.298	5,782	0	5,086	0
			<u>5,782</u>	<u>0</u>	<u>9,981</u>	<u>0</u>
Goals 2000 State and Local Education Systemic Improvement	G2-S1-99	84.276	45,300	0	40,180	0
<i>Direct</i>						
Telecommunications Act Grant	N/A	N/A	10,617	0	0	0
Total U.S. Department of Education			<u>435,870</u>	<u>0</u>	<u>446,403</u>	<u>0</u>
TOTALS			<u><u>\$548,947</u></u>	<u><u>\$31,411</u></u>	<u><u>\$559,480</u></u>	<u><u>\$31,203</u></u>

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

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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



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

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

We have audited the accompanying financial statements of the Eastern Local School District, Brown County, Ohio (the District), as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated February 25, 2000. 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 a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated February 25, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 February 25, 2000.

Eastern Local School District
Brown County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Jim Petro
Auditor of State

February 25, 2000



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

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

February 25, 2000

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1- CFDA #84.010 and Nutrition Cluster - CFDA #10.555/10.550
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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EASTERN LOCAL SCHOOL DISTRICT

BROWN 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 28, 2000**