



**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Seneca East Local School District
Seneca County
109 Seneca Street
PO Box 462
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To the Board of Education:

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

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 School District, 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 December 16, 1999 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

December 16, 1999

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

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$350,935	\$98,182	\$133,720
Cash and Cash Equivalents with Fiscal Agent		3,557	
Receivables:			
Property Taxes	1,688,911		113,238
Accounts	2,429	2,317	
Accrued Interest	240		
Intergovernmental	6,191		30,000
Interfund	11,167		
Prepaid Items	58,171	77	
Inventory Held for Resale			
Materials and Supplies Inventory	20,610		
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	27,976		
Fixed Assets (net, where applicable, of accumulated depreciation)			
Other Debits:			
Amount to be Provided from General Governmental Resources			
Total Assets and Other Debits	<u>\$2,166,630</u>	<u>\$104,133</u>	<u>\$276,958</u>
 LIABILITIES, FUND EQUITY, AND OTHER CREDITS:			
Liabilities:			
Accounts Payable	\$11,618	\$6,814	\$1,900
Contracts Payable	1,525		12,264
Retainage Payable			16,682
Accrued Wages and Benefits	477,585	14,523	
Compensated Absences Payable	13,405		
Intergovernmental Payable	132,672	4,494	
Interfund Payable		9,650	
Deferred Revenue	1,497,717		100,185
Due to Students			
Energy Conservation Loan Payable			
Total Liabilities	<u>2,134,522</u>	<u>35,481</u>	<u>131,031</u>
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved (Deficit)			
Fund Balance:			
Reserved for Property Taxes	191,194		13,053
Reserved for Inventory	20,610		
Reserved for Budget Stabilization	27,976		
Reserved for Encumbrances	20,485	1,721	156,317
Unreserved (Deficit)	<u>(228,157)</u>	<u>66,931</u>	<u>(23,443)</u>
Total Fund Equity and Other Credits	<u>32,108</u>	<u>68,652</u>	<u>145,927</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$2,166,630</u>	<u>\$104,133</u>	<u>\$276,958</u>

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

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$140	\$104,491			\$687,468 3,557
				1,802,149
1,206				5,952
				240
6,437				42,628
				11,167
2,262				60,510
8,265				8,265
642				21,252
				27,976
37,271		\$3,707,956		3,745,227
			\$484,056	484,056
\$56,223	\$104,491	\$3,707,956	\$484,056	\$6,900,447
				\$20,332
				13,789
				16,682
\$16,327				508,435
8,350			\$377,543	399,298
15,720			67,774	220,660
757	\$760			11,167
6,267				1,604,169
	26,528			26,528
			38,739	38,739
47,421	27,288		484,056	2,859,799
		\$3,707,956		3,707,956
11,699				11,699
(2,897)				(2,897)
				204,247
				20,610
				27,976
				178,523
	77,203			(107,466)
8,802	77,203	3,707,956		4,040,648
\$56,223	\$104,491	\$3,707,956	\$484,056	\$6,900,447

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Property Taxes	\$1,694,927	
Intergovernmental	3,538,676	\$337,946
Interest	30,004	
Tuition and Fees	20,060	625
Rent	6,607	
Extracurricular Activities	2,689	88,521
Gifts and Donations		200
Miscellaneous	37,896	400
	5,330,859	427,692
Total Revenues		
Expenditures:		
Current:		
Instruction:		
Regular	2,958,055	5,290
Special	283,292	113,494
Vocational	223,806	
Adult/Continuing	2,071	
Support Services:		
Pupils	187,319	149,992
Instructional Staff	165,031	16,135
Board of Education	23,725	
Administration	413,557	3,751
Fiscal	153,798	3,023
Operation and Maintenance of Plant	573,844	
Pupil Transportation	395,881	872
Central		581
Extracurricular Activities	136,514	90,763
Capital Outlay	3,683	
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
	5,520,576	383,901
Total Expenditures		
Excess of Revenues Over (Under) Expenditures	(189,717)	43,791
Other Financing Sources (Uses):		
Operating Transfers In		
Operating Transfers Out	(47,638)	(5,000)
Total Other Financing Sources (Uses)	(47,638)	(5,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(237,355)	38,791
Fund Balances at Beginning of Year	268,213	29,861
Increase in Reserve for Inventory	1,250	
Fund Balances at End of Year	\$32,108	\$68,652

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

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
	\$131,495		\$1,826,422
	322,027		4,198,649
	677	\$1,423	32,104
			20,685
			6,607
			91,210
		20,100	20,300
			38,296
	454,199	21,523	6,234,273
	4,323		2,967,668
			396,786
		1,000	223,806
			3,071
			337,311
			181,166
			23,725
			417,308
			156,821
			573,844
			396,753
			581
			227,277
	510,320		514,003
\$7,500			7,500
2,138			2,138
9,638	514,643	1,000	6,429,758
(9,638)	(60,444)	20,523	(195,485)
9,638	5,000		14,638
			(52,638)
9,638	5,000		(38,000)
	(55,444)	20,523	(233,485)
	201,371	56,680	556,125
			1,250
	\$145,927	\$77,203	\$323,890

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

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Property Taxes	\$1,763,000	\$1,762,347	(\$653)
Intergovernmental	3,245,329	3,544,232	298,903
Interest	32,600	29,909	(2,691)
Tuition and Fees	15,500	20,062	4,562
Rent	5,200	6,607	1,407
Extracurricular Activities	1,000	2,689	1,689
Gifts and Donations			
Miscellaneous	18,700	31,884	13,184
Total Revenues	<u>5,081,329</u>	<u>5,397,730</u>	<u>316,401</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,943,837	2,940,430	3,407
Special	15,650	283,335	(267,685)
Vocational	234,081	221,598	12,483
Adult/Continuing	3,200	2,048	1,152
Support Services:			
Pupils	132,843	186,063	(53,220)
Instructional Staff	168,400	161,534	6,866
Board of Education	26,775	22,713	4,062
Administration	436,291	408,966	27,325
Fiscal	162,745	153,606	9,139
Operation and Maintenance of Plant	633,638	595,780	37,858
Pupil Transportation	415,392	396,215	19,177
Central			
Extracurricular Activities	149,741	137,066	12,675
Capital Outlay	6,413	3,029	3,384
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	<u>5,329,006</u>	<u>5,512,383</u>	<u>(183,377)</u>
Excess of Revenues Over (Under) Expenditures	<u>(247,677)</u>	<u>(114,653)</u>	<u>133,024</u>
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures		7,841	7,841
Advances In	10,000	34,852	24,852
Advances Out	(15,540)	(9,990)	5,550
Operating Transfers In			
Operating Transfers Out	(52,929)	(47,638)	5,291
Total Other Financing Sources (Uses)	<u>(58,469)</u>	<u>(14,935)</u>	<u>43,534</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(306,146)</u>	<u>(129,588)</u>	<u>176,558</u>
Fund Balances at Beginning of Year	359,199	359,199	
Prior Year Encumbrances Appropriated	119,926	119,926	
Fund Balances (Deficit) at End of Year	<u>\$172,979</u>	<u>\$349,537</u>	<u>\$176,558</u>

Special Revenue Funds			Debt Service Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$195,734	\$333,049	\$137,315			
603	625	22			
82,909	86,204	3,295			
900	200	(700)			
400	400				
<u>280,546</u>	<u>420,478</u>	<u>139,932</u>			
5,303	4,958	345			
105,932	94,719	11,213			
66,868	150,098	(83,230)			
9,206	8,689	517			
2,414	2,414				
2,586	2,586				
950	940	10			
102,371	92,073	10,298			
			\$7,490	\$7,500	(\$10)
			2,148	2,138	10
<u>295,630</u>	<u>356,477</u>	<u>(60,847)</u>	<u>9,638</u>	<u>9,638</u>	
<u>(15,084)</u>	<u>64,001</u>	<u>79,085</u>	<u>(9,638)</u>	<u>(9,638)</u>	
	9,650	9,650			
(15,000)	(15,000)				
12,000		(12,000)	9,638	9,638	
(5,000)	(5,000)				
<u>(8,000)</u>	<u>(10,350)</u>	<u>(2,350)</u>	<u>9,638</u>	<u>9,638</u>	
(23,084)	53,651	76,735			
25,743	25,743				
11,486	11,486				
<u>\$14,145</u>	<u>\$90,880</u>	<u>\$76,735</u>			

(Continued)

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

	<u>Capital Projects Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property Taxes	\$118,000	\$118,442	\$442
Intergovernmental	292,208	292,027	(181)
Interest	500	677	177
Tuition and Fees			
Rent			
Extracurricular Activities			
Gifts and Donations			
Miscellaneous			
Total Revenues	<u>410,708</u>	<u>411,146</u>	<u>438</u>
Expenditures:			
Current:			
Instruction:			
Regular	20,500	4,323	16,177
Special			
Vocational			
Adult/Continuing			
Support Services:			
Pupils			
Instructional Staff			
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central			
Extracurricular Activities			
Capital Outlay	705,855	638,207	67,648
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	<u>726,355</u>	<u>642,530</u>	<u>83,825</u>
Excess of Revenues Over (Under) Expenditures	<u>(315,647)</u>	<u>(231,384)</u>	<u>84,263</u>
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures			
Advances In			
Advances Out	(12,152)	(12,152)	
Operating Transfers In		5,000	5,000
Operating Transfers Out			
Total Other Financing Sources (Uses)	<u>(12,152)</u>	<u>(7,152)</u>	<u>5,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(327,799)</u>	<u>(238,536)</u>	<u>89,263</u>
Fund Balances at Beginning of Year	13,584	13,584	
Prior Year Encumbrances Appropriated	<u>202,355</u>	<u>202,355</u>	
Fund Balances (Deficit) at End of Year	<u>(\$111,860)</u>	<u>(\$22,597)</u>	<u>\$89,263</u>

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

Expendable Trust Fund			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
			\$1,881,000	\$1,880,789	(\$211)
			3,733,271	4,169,308	436,037
\$2,000	\$1,423	(\$577)	35,100	32,009	(3,091)
			16,103	20,687	4,584
			5,200	6,607	1,407
			83,909	88,893	4,984
10,000	20,100	10,100	10,900	20,300	9,400
			19,100	32,284	13,184
12,000	21,523	9,523	5,784,583	6,250,877	466,294
			2,969,640	2,949,711	19,929
			121,582	378,054	(256,472)
4,000	1,000	3,000	234,081	221,598	12,483
			7,200	3,048	4,152
			199,711	336,161	(136,450)
			177,606	170,223	7,383
			26,775	22,713	4,062
			438,705	411,380	27,325
			165,331	156,192	9,139
			633,638	595,780	37,858
			415,392	396,215	19,177
			950	940	10
			252,112	229,139	22,973
			712,268	641,236	71,032
			7,490	7,500	(10)
			2,148	2,138	10
4,000	1,000	3,000	6,364,629	6,522,028	(157,399)
8,000	20,523	12,523	(580,046)	(271,151)	308,895
				7,841	7,841
			10,000	44,502	34,502
			(42,692)	(37,142)	5,550
			21,638	14,638	(7,000)
			(57,929)	(52,638)	5,291
			(68,983)	(22,799)	46,184
8,000	20,523	12,523	(649,029)	(293,950)	355,079
54,680	54,680		453,206	453,206	
2,000	2,000		335,767	335,767	
\$64,680	\$77,203	\$12,523	\$139,944	\$495,023	\$355,079

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND EQUITY - ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise Funds
Operating Revenues:	
Sales	\$247,852
Operating Expenses:	
Salaries	126,044
Fringe Benefits	57,310
Purchased Services	4,932
Materials and Supplies	5,596
Cost of Sales	155,084
Depreciation	4,803
Other Operating Expenses	225
Total Operating Expenses	353,994
Operating Loss	(106,142)
Non-Operating Revenues:	
Federal Donated Commodities	19,005
Operating Grants	52,664
Total Non-Operating Revenues	71,669
Net Loss Before Operating Transfers	(34,473)
Operating Transfers In	38,000
Net Income	3,527
Retained Earnings (Deficit) at Beginning of Year	(6,424)
Retained Earnings (Deficit) at End of Year	(2,897)
Contributed Capital Beginning and End of Year	11,699
Total Fund Equity (Deficit) at End of Year	\$8,802

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

**COMBINED STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise Funds
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$247,243
Cash Payments for Salaries	(126,196)
Cash Payments for Fringe Benefits	(53,216)
Cash Payments to Suppliers for Goods and Services	(147,072)
Cash Payments for Other Expenses	(225)
	<u>(79,466)</u>
Net Cash Used for Operating Activities	
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants	52,448
Cash Received from Advances In	757
Cash Payments for Advances Out	(7,700)
Cash Received from Operating Transfers In	38,000
	<u>83,505</u>
Net Cash Provided by Noncapital Financing Activities	
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Fixed Assets	(5,645)
	<u>(5,645)</u>
Net Decrease in Cash and Cash Equivalents	(1,606)
Cash and Cash Equivalents at Beginning of Year	1,746
	<u>1,746</u>
Cash and Cash Equivalents at End of Year	\$140
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating Loss	(\$106,142)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	4,803
Donated Commodities Used During Year	19,005
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(609)
Increase in Prepaid Items	(17)
Increase in Inventory Held for Resale	(504)
Decrease in Materials and Supplies Inventory	39
Decrease in Accrued Wages and Benefits	(153)
Increase in Compensated Absences Payable	2,621
Increase in Intergovernmental Payable	1,491
	<u>1,491</u>
Net Cash Used for Operating Activities	(\$79,466)

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

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Sales	\$276,000	\$247,243	(\$28,757)
Operating Grants	50,000	52,448	2,448
Total Revenues	<u>326,000</u>	<u>299,691</u>	<u>(26,309)</u>
Expenses:			
Salaries	126,700	126,196	504
Fringe Benefits	55,000	53,216	1,784
Purchased Services	5,060	4,932	128
Materials and Supplies	146,990	141,835	5,155
Other Expenses	300	225	75
Capital Outlay	5,950	5,950	
Total Expenses	<u>340,000</u>	<u>332,354</u>	<u>7,646</u>
Excess of Expenses Over Revenues	<u>(14,000)</u>	<u>(32,663)</u>	<u>(18,663)</u>
Advances In	15,000	340	(14,660)
Advances Out	(7,700)	(7,700)	
Operating Transfers In		38,000	38,000
Excess of Expenses, Advances, and Transfers Over Revenues	<u>(6,700)</u>	<u>(2,023)</u>	<u>4,677</u>
Fund Balances at Beginning of Year	1,195	1,195	
Prior Year Encumbrances Appropriated	551	551	
Fund Balances (Deficit) at End of Year	<u>(\$4,954)</u>	<u>(\$277)</u>	<u>\$4,677</u>

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Seneca East 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 and/or federal guidelines.

The School District was established in 1971. The School District serves an area of approximately one hundred fifty-four square miles and is located in Seneca and Huron Counties. The School District is the 467th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by fifty-four classified employees, sixty-nine certified teaching personnel, and six administrative employees who provide services to 1,143 students and other community members. The School District currently operates two elementary schools, an elementary/junior high school, a high school, and an administration building.

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 Seneca East 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 organizations' 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 organizations' 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 School District is associated with three jointly governed organizations, two insurance pools, and a related organization. These organizations are the Northern Ohio Educational Computer Association, Vanguard-Sentinel Joint Vocational School, Bay Area Council, Ohio School Boards Association Workers' Compensation Group Rating Plan, Seneca County Joint Self-Insurance Association, and the Seneca East Public Library. These organizations are presented in Notes 18, 19, and 20 to the combined financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Seneca East 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 enterprise funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of governmental, proprietary, and fiduciary.

1. 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. 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 trusts 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 - 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).

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

2. 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 Funds - Enterprise funds are 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.

3. 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. These include expendable trust, nonexpendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. The School District did not have any nonexpendable trust funds in fiscal year 1999. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of 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 proprietary funds 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 proprietary funds 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 fund types and the expendable trust fund 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

The enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds 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 fund types, 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 fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, interest, tuition, student fees, and rent.

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 enterprise funds. 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 on 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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

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 function and fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Budgetary information for the Eisenhower, Title VI, Drug Free, and Preschool special revenue funds is not reported because these funds are not included in the entity for which the "appropriated budget" is adopted. The special revenue funds are flow through grants in which the North Central Ohio Educational Service Center is the primary recipient.

1. 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 Seneca County Budget Commission for rate determination.

2. 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 fiscal 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 of estimated resources is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate of estimated resources 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 of estimated resources issued during fiscal year 1999.

3. 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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

3. Appropriations (Continued)

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 as 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, one supplemental appropriation resolutions was legally enacted; however, this amendment was not 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, except agency funds, consistent with statutory provisions.

4. 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 the governmental fund types and expendable trust fund and reported in the notes to the financial statements for the enterprise funds.

5. 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 Investments

To improve cash management, cash received by the School District is pooled. Monies for all 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 combined balance sheet.

Cash and cash equivalents held for the School District by the North Central Ohio Educational Service Center are included on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agent".

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments (Continued)

During fiscal year 1999, investments were limited to nonnegotiable certificates of deposit, which 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 \$30,004, which includes \$9,146 assigned from other School District funds.

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

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Inventory

Inventory in the governmental funds is stated at cost while inventory in the enterprise funds is stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in the governmental funds consists of expendable supplies held for consumption. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported materials 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. Inventory in the enterprise funds consists of donated food, purchased food, and school supplies held for resale and is expensed when used.

G. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by State statute to create a reserve for budget stabilization.

H. 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 enterprise funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

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 enterprise 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 enterprise funds is computed using the straight-line method over an estimated useful life of eight to twenty years.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables".

J. Compensated Absences

Vacation 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. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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. The School District records a liability for accumulated unused sick leave for all employees after ten years of service with the School District.

For governmental funds, 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 enterprise funds, the entire amount of compensated absences is reported as a fund liability.

K. 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 liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments for these liabilities made more than sixty days after fiscal year end are considered not to have required the use of current available financial resources. Long-term loans are reported as a liability in the general long-term obligations account group until due.

Long-term debt and other obligations financed by the enterprise funds are reported as liabilities in the appropriate fund.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise 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 fiscal year end.

M. 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 property taxes, inventories of materials and supplies, budget stabilization, and encumbrances.

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

N. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such grants awarded on a non-reimbursement basis, entitlements, and shared revenues 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 enterprise fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

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 Allocation

Non-Reimbursable Grants

Special Revenue Funds

Professional Development
Education Management Information Systems
WSOS
Eisenhower
Title VI-B
Title I

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Intergovernmental Revenues (Continued)

Non-Reimbursable Grants (Continued)

Special Revenue Funds (Continued)

Title VI
Drug Free
Preschool
Continuous Improvement

Capital Projects Funds

SchoolNet Plus
Technology Equity
Textbook/Instructional Materials
Emergency Building Repair
Long Distance Learning

Reimbursable Grants

General Fund

Driver Education

Enterprise Fund

National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 67 percent of the revenues of the School District's governmental fund types during the 1999 fiscal year.

O. 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.

P. 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.

Q. 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 or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The Athletic, EMIS, and Title I special revenue funds had deficit fund balances of \$3,235, \$27, and \$16,484, respectively, at June 30, 1999, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The Food Service enterprise fund had deficit retained earnings of \$3,549 at June 30, 1999, as a result of accumulated operating losses from prior years.

B. Compliance

The Permanent Improvement, Emergency Repair, and Long Distance Learning capital projects funds and the Food Service enterprise fund had appropriations in excess of estimated resources plus available balances, in the amount of \$27,303, \$57,152, \$30,000, and \$9,124, respectively, for the fiscal year ended June 30, 1999.

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 1999.

<u>Fund Type/Fund/ Function/Object</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General:			
Regular Instruction/Purchased Services	\$76,440	\$83,881	\$7,441
Special Instruction/Purchased Services	15,650	283,335	267,685
Pupils/Purchased Services	9,795	64,721	54,926
Special Revenue:			
Title VI			
Pupils/Purchased Services	61,004	146,224	85,220
Debt Service:			
Bond Retirement			
Debt Service/Principal Retirement	7,490	7,500	10

The District had appropriations that exceeded the funds estimated resources in the capital projects and enterprise types and did not issue "412" certifications which are violations of state law.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/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 (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - Enterprise Funds 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:

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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 the expendable trust fund and as note disclosure in the enterprise funds (GAAP basis).
4. For the enterprise funds, the acquisition and construction of fixed assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Although not part of the appropriated budget, the Eisenhower, Title VI, Drug Free, and Preschool special revenue funds are included as part of the reporting entity when preparing financial statements that conform with GAAP.

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
Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	(\$237,355)	\$38,791	(\$55,444)
<u>Increase (Decrease) Due To:</u>			
Revenue Accruals:			
Accrued FY 1998, Received in Cash FY 1999	274,766		
Accrued FY 1999, Not Yet Received in Cash	(200,054)	(2,317)	(43,053)
Expenditure Accruals:			
Accrued FY 1998, Paid in Cash FY 1999	(602,854)	(1,512)	(2,416)
Accrued FY 1999, Not Yet Paid in Cash	636,045	25,831	30,846
Prepaid Items	4,793	(77)	
Advances In	34,852	9,650	
Advances Out	(\$9,990)	(\$15,000)	(\$12,152)
Excess of Revenues Under Expenditures for Non-budgeted Funds		5,587	
Encumbrances Outstanding at Year End (Budget Basis)	(29,791)	(7,302)	(156,317)
Budget Basis	<u>(\$129,588)</u>	<u>\$53,651</u>	<u>(\$238,536)</u>

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Income/Excess of Revenues Under Expenses, Advances, and Transfers Enterprise Funds	
GAAP Basis	\$3,527
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 1998, Received in Cash FY 1999	6,818
Accrued FY 1999, Not Yet Received Cash	(7,643)
Expense Accruals:	
Accrued FY 1998, Paid in Cash FY 1999	(36,438)
Accrued FY 1999, Not Yet Paid in Cash	40,397
Prepaid Items	(17)
Inventory Held for Resale	(504)
Materials and Supplies Inventory	39
Acquisition of Fixed Assets	(5,645)
Depreciation Expense	4,803
Advances In	340
Advances Out	(7,700)
Budget Basis	(\$2,023)

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

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

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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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; and
6. The State Treasurer's investment pool (STAR Ohio).

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

At fiscal year end, the School District had \$2,643 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

At fiscal year end, the School District had \$3,557 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts and therefore the School District cannot classify this money by risk under GASB Statement No. 3.

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".

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the carrying amount of the School District's deposits was \$712,801 and the bank balance was \$805,678. Of the bank balance, \$300,000 was covered by federal depository insurance and \$505,678 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. All property is required to be revalued every six years. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Public utility property taxes, attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current fiscal year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. 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 semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property 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 fiscal 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, 1999, was \$191,194 in the General Fund and \$13,053 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 1998, was \$258,614 in the General Fund.

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

NOTE 6 - PROPERTY TAXES (Continued)

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

	1998 Second- Half Collections		1999 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$51,047,000	79.78%	\$52,225,000	79.41%
Public Utility	10,161,110	15.88	10,494,910	15.96
Tangible Personal	2,776,696	4.34	3,044,385	4.63
Total Assessed Value	<u>\$63,984,806</u>	<u>100.00%</u>	<u>\$65,764,295</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$40.30</u>		<u>\$40.30</u>	

NOTE 7 - RECEIVABLES

Receivables at June 30, 1999, consisted of property taxes, accounts (student fees and billings for user charged services), accrued interest, intergovernmental grants, and interfund receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Student fees are also considered collectible in full due to the withholding of diplomas and grade cards. Accounts receivable at June 30 were \$5,952.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund:	
Driver Education	\$1,250
North Central Ohio Educational Service Center	4,941
	<u>6,191</u>
Capital Projects Fund:	
Long Distance Learning	30,000
Enterprise Fund:	
Food Service	6,437
Total Intergovernmental Receivables	<u>\$42,628</u>

NOTE 8 - FIXED ASSETS

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

Furniture and Equipment	\$95,354
Less Accumulated Depreciation	(58,083)
Net Fixed Assets	<u>\$37,271</u>

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

NOTE 8 - FIXED ASSETS (Continued)

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

Asset Category	Balance at 6/30/98	Additions	Reductions	Balance at 6/30/99
Land and Improvements	\$104,539			\$104,539
Buildings and Improvements	968,829	\$136,695		1,105,524
Furniture, Fixtures, and Equipment	1,004,181	93,394	\$23,603	1,073,972
Books	355,516	52,357	262	407,611
Vehicles	760,385	101,643	60,000	802,028
Construction in Progress		214,282		214,282
Total	<u>\$3,193,450</u>	<u>\$598,371</u>	<u>\$83,865</u>	<u>\$3,707,956</u>

NOTE 9 - INTERFUND ASSETS/LIABILITIES

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

Fund Type/Fund	Interfund Receivable	Interfund Payable
General	<u>\$11,167</u>	
Special Revenue: Athletic		<u>\$9,650</u>
Enterprise:		
Food Service		417
Uniform School Supplies		<u>340</u>
Total Enterprise		<u>757</u>
Agency:		
Student Activities		<u>760</u>
Total	<u>\$11,167</u>	<u>\$11,167</u>

NOTE 10 - 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 for the following insurance coverages:

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

NOTE 10 - RISK MANAGEMENT (Continued)

Coverages provided by Nationwide Insurance are as follows:

Buildings and Contents - replacement cost (\$1,000 deductible)	\$13,018,900
Inland Marine Coverage (\$100 deductible)	654,172
Boiler and Machinery - limit per accident (\$1,000 deductible)	6,665,400
Musical Instruments	173,837
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
Medical Payments - per person	5,000
General Liability	
Per Occurrence	1,000,000
Total per Year	5,000,000
Umbrella Liability	2,000,000

Coverages provided by Farmers Mutual Insurance Association are as follows:

Farm Buildings and Contents (\$100 deductible)	\$101,900
Crop Hailstorm	17,500

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last 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. 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 participants is calculated as one experience and a common premium rate is applied to all participants 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 participants 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 Seneca County Joint Self-Insurance Association (the Association), a public entity shared risk pool consisting of five school districts and the North Central Ohio and Sandusky County Educational Service Centers. Each member pays premiums to the Association for employee medical, dental, vision, and life insurance coverage. The Association is responsible for the management and operation of the program. Upon withdrawal, the School District is responsible for the payment of all Association liabilities to its employees, dependents, and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all member's claims would be paid without regard to the member's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

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

NOTE 11 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The School District has several outstanding contracts for professional services. The following amounts remain on these contracts as of June 30, 1999:

<u>Company</u>	<u>Outstanding Balance</u>
Attica Lumber	\$9,000
Comdisco	11,430
Burris and Behne Architects	871
Demco	1,200
GTE	29,865
Weithman Brothers	59,441

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. 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 administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation 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 contribution for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997, were \$165,904, \$276,780, and \$269,497, respectively; 83.11 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1999, in the amount of \$28,022, is recorded as a liability within the respective funds.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 7.7 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, 9.02 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997, were \$59,780, \$62,837, and \$66,813, respectively; 37.65 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. The unpaid contribution for fiscal year 1999, in the amount of \$37,273, is recorded as a liability within the respective funds and the general long-term obligations account group.

C. Social Security System

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

NOTE 13 - 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 classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 1999, the 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 \$221,205 for fiscal year 1999.

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

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

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

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

For this fiscal year, employer contributions to fund health care benefits were 6.3 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 has been established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$82,569 for fiscal year 1999.

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

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave components is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per 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 a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twelve days for school personnel. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of fifty-three days.

B. Health Care Benefits

The School District provides medical, dental, and life insurance to all employees through the Seneca County Joint Self-Insurance Association. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

NOTE 15 - LONG-TERM OBLIGATIONS

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

	Balance at 6/30/98	Additions	Reductions	Balance at 6/30/99
Energy Conservation				
Loan FY 1994 5.00%	\$46,239		\$7,500	\$38,739
Compensated Absences Payable	368,431	9,112		377,543
Intergovernmental Payable	62,862	67,774	62,862	67,774
Total General Long-Term Obligations	<u>\$477,532</u>	<u>\$76,886</u>	<u>\$70,362</u>	<u>\$484,056</u>

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

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

FY 1994 Energy Conservation Loan - On November 15, 1993, the School District obtained a loan, in the amount of \$75,547, from Sutton Bank to provide energy conservation measures for the School District. The loan was issued under the authority of Ohio Revised Code Section 133.06 for a ten year period, with final maturity in fiscal year 2004. The loan is being retired through the Bond Retirement debt service fund.

Compensated absences and intergovernmental payables, representing the School District's contractually required pension contribution, will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$5,918,787 with an unvoted debt margin of \$65,764 at June 30, 1999.

Principal and interest requirements to retire the energy conservation loan outstanding at June 30, 1999, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2000	\$7,860	\$1,755	\$9,615
2001	8,262	1,353	9,615
2002	8,685	930	9,615
2003	9,129	486	9,615
2004	4,803	71	4,874
	<u>\$38,739</u>	<u>\$4,595</u>	<u>\$43,334</u>

NOTE 16 - RESERVATIONS OF FUND BALANCE

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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years. In addition, the School District is required to set aside money for budget stabilization.

The following cash basis information identifies the changes in fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 1999.

	Textbooks	Capital Improvements	Budget Stabilization	Total
Balance June 30, 1998			\$27,976	\$27,976
Current Year Set-Aside Requirement	\$77,308	\$77,308		154,616
Qualifying Expenditures	(77,308)	(77,308)		(154,616)
Balance June 30, 1999	<u></u>	<u></u>	<u>\$27,976</u>	<u>\$27,976</u>

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

NOTE 16 - RESERVATIONS OF FUND BALANCE (Continued)

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

NOTE 17 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Seneca East Local School District as of and for the fiscal year ended June 30, 1999.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$228,420	\$19,432	\$247,852
Depreciation Expense	4,803		4,803
Operating Loss	(105,063)	(1,079)	(106,142)
Federal Donated Commodities	19,005		19,005
Operating Grants	52,664		52,664
Operating Transfers In	\$38,000		\$38,000
Net Income Loss	4,606	(1,079)	3,527
Fixed Asset Additions	5,645		5,645
Net Working Capital	(20,771)	652	(20,119)
Total Assets	55,231	992	56,223
Total Equity (Deficit)	8,150	652	8,802

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Northern Ohio Educational Computer Association

The School District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of thirty-eight school districts 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 NOECA Board of Directors consists of two representatives from each county in which participating school districts are located and the chairman of each of the operating committees. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

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

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Vanguard-Sentinel Joint Vocational School (Continued)

The Vanguard-Sentinel Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from the Seneca East Local School District, one representative from twelve other participating school districts, and two representatives from the Fremont City School District. The degree of control exercised by any participating school district is limited to its representation on the Board. The JVS is its own budgeting and taxing authority. Financial information can be obtained from Jay Valasek, Vanguard-Sentinel Joint Vocational School, 1306 Cedar Street, Fremont, Ohio 43420.

C. Bay Area Council

The Bay Area Council was established in 1986 to carry out a cooperative program for the purchase of natural gas among boards of education located in Erie, Huron, Ottawa, Sandusky, Seneca, and Wood Counties. The Bay Area Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member boards of education. The Bay Area Council is governed by a Board of Directors. This Board is elected by an Assembly consisting of a representative from each participating school district. Financial information can be obtained from the Erie County Educational Service Center, who serves as fiscal agent, 2902 Columbus Avenue, Sandusky, Ohio 44870.

NOTE 19 - INSURANCE POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group 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 GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Seneca County Joint Self-Insurance Association

The School District participates in the Seneca County Joint Self-Insurance Association (the Association), a public entity shared risk pool consisting of five school districts and the North Central Ohio and Sandusky County Educational Service Centers. The Association is responsible for the administration of the program and processing of all claims for each member. The School District pays premiums to the Association for employee medical, dental, and life insurance benefits.

The Association is governed by a Board of Directors consisting of the superintendent from each participating member. Each participant decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Association is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums.

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

NOTE 20 - RELATED ORGANIZATION

Seneca East Public Library

The Seneca East Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Seneca East Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Seneca East Public Library, Ernestine Walliser, who serves as Clerk-Treasurer, 14 North Main Street, Attica, Ohio 44807.

NOTE 21 - SCHOOL FOUNDATION PROGRAM

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's Legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "School Foundation Program", which provides significant monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$2,900,123 of school foundation support for its General Fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State Legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of these financial statements, 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 Court of Common Pleas declared unconstitutional.

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

NOTE 22 - YEAR 2000 ISSUE

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the School District's operations.

The School District has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 Issue and that are necessary to conducting School District operations. The School District has identified these systems as being financial reporting, payroll and employee benefits, and educational statistics reporting.

The School District uses the State of Ohio Uniform School Accounting System software for its financial reporting, and the State of Ohio Uniform School Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems and is solely responsible for any costs associated with this project.

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

NOTE 22 - YEAR 2000 ISSUE (Continued)

The State of Ohio distributes a substantial sum of money to the School District in the form of "Foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the School District through the State's Education Management and Information System (EMIS). The State is responsible for remediating these systems and is solely responsible for any costs associated with this project.

Seneca and Huron Counties collect property taxes for distribution to the School District. The Counties are responsible for remediating the tax collection systems and are responsible for remediating these systems and are solely responsible for any costs associated with this project.

The School District owns and operates the personal computers and other hardware used to enter data, initiate processing commands, and print reports for the financial reporting, payroll and employee benefits, and educational statistics reporting systems. The School District's vendors have indicated that the software and hardware for these systems is believed to be year 2000 compliant.

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

NOTE 23 - CONTINGENT LIABILITIES

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.

B. Litigation

There are currently no matters in litigation with the School District as defendant.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Seneca East Local School District
Seneca County
109 Seneca Street
PO Box 462
Attica, Ohio 44807-0462

To the Board of Education:

We have audited the financial statements of Seneca East Local School District as of and for the year ended June 30, 1999, and have issued our report thereon dated December 16, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Seneca East Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-10574-001, 1999-10574-002 and 1999-10574-003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal 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 School District in a separate letter dated December 16, 1999.

Seneca East Local School District
Seneca 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 management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 16, 1999

**SCHEDULE OF FINDINGS
JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-10574-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated as provided in such a chapter.

There were several accounts throughout the year that had expenditures that exceeded their appropriations. The District had the revenue to obtain an amended certificate and amend the appropriations. An appropriation amendment was adopted only at the end of the fiscal year. We recommend the Treasurer review appropriations periodically and request an amended certificate when needed throughout the fiscal year.

FINDING NUMBER 1999-10574-002

Noncompliance Citation

Ohio Revised Code § 5705.412 states that no school shall adopt any appropriation measure, make any contract, give any order involving the expenditure of money or increase during any school year any wage or salary schedule unless there is attached thereto a certificate signed by the treasurer and president of the board of education and the superintendent that the school district has in effect for the remainder of the fiscal year and the succeeding fiscal year the authorization to levy taxes including the renewal of existing levies which, when combined with the estimated revenue from all other sources available to the district at the time of certification, are sufficient to provide the operating revenue necessary to enable the district to operate an adequate educational program for all the days set forth in its adopted school calendars for the current fiscal year and for the number of days in the succeeding fiscal year equal to the number of days instruction that was held or scheduled for the current year.

There were no such certificates issued during the fiscal year. Failure to comply with this code section could result in a potential personal liability of up to \$20,000 for certain District officials. We recommend the District develop a policy governing the use of "412" certificates. We also recommend retroactive certification where required.

FINDING NUMBER 1999-10574-003

Noncompliance Citation

Ohio Revised Code § 5705.39 states the total appropriation from each fund should not exceed the total estimated resources, and no appropriation measure shall become effective until the county auditor files with the appropriating authority, a certificate, stating that the total appropriations from each fund taken together with all outstanding encumbrances, does not exceed the Amended Official Certificate of Estimated Resources. The county auditor's certificate stated appropriation did exceed estimated resources. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. At the end of 1999, the following funds had appropriations that exceeded that fund's estimated resources:

FINDING NUMBER 1999-10574-003
(Continued)

Fund Name	Appropriations	Estimated Resources	Variance
Capital Projects Funds			
Permanent Improvement Fund	\$182,636	\$155,332	\$27,304
Emergency Repair Fund	450,490	393,338	57,152
Long Distance Learning Fund	30,000		30,000
Enterprise Fund			
Food Service Fund	324,700	315,573	9,127

We recommend appropriation measures be compared to the latest amended certificate of estimated resources and appropriate modifications be made prior to submitting it to the County Auditor. The District should request a certificate from the County Auditor for each appropriation measure.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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SENECA EAST LOCAL SCHOOL DISTRICT

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 18, 2000**