ST. HENRY CONSOLIDATED LOCAL SCHOOL DISTRICT
MERCER COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 1999-1998

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

St. Henry Consolidated Local School District
Mercer County
371 East Columbus Street
St. Henry, OH 45883

To the Board of Education:

We have audited the accompanying general-purpose financial statements of St. Henry Consolidated Local School District, Mercer County, (the District) as of and for the years ended June 30, 1999 and June 30, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 1999 and June 30, 1998, and the results of its operations and the cash flows of its proprietary fund types for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2000, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

JIM PETRO
Auditor of State

January 21, 2000

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Equity in Pooled Cash and Cash Equivalents	$1,455,954	$37,781	$187,952	$127,018
Receivables:				
Taxes	1,532,469	0	184,618	99,329
Accounts	3,188	0	0	0
Intergovernmental		0	0	0
Accrued Interest	8,437	0	0	0
Interfund Receivable	10,100	0	12,111	0
Materials and Supplies Inventory	0	0	0	0
Prepaid Items	4,730	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	62,343	0	0	0
Fixed Assets:				
Fixed Assets	0	0	0	0
Accumulated Depreciation	0	0	0	0
Other Debits:				
Amount in Debt Service Fund for Retirement of	0	0	0	0
Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	$3,077,221	$37,781	$384,681	$226,347
Liabilities:				
Accounts Payable	$15,589	$6,599	$0	$4,085
Contracts Payable	0	0	0	51,575
Accrued Wages and Benefits	614,491	4,055	0	
Compensated Absences Payable	15,036	0	0	0
Interfund Payable	12,111	5,100	0	600
Due to Other Funds	0	0	0	0
Intergovernmental Payable	87,297		0	0
Deferred Revenue	1,523,824	0	184,314	99,188
Due to Students	0	0	0	0
Land Acquisition Note	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	2,268,348	15,754	184,314	155,448
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved:				
Reserved for Encumbrances	89,080	20,585	0	126,086
Reserved for Prepaids	4,730	0	0	0
Reserved for Debt Service	0	0	200,063	0
Reserved for Property Taxes	8,645	0	304	141
Reserved for Budget Stabilization	62,286	0	0	0
Reserved for Bus Purchases	57	0	0	0
Unreserved:				
Designated for Budget Stabilization	42,229	0	0	0
Undesignated	601,846	1,442	0	(55,328)
Total Fund Equity and Other Credits	808,873	22,027	200,367	70,899
Total Liabilities, Fund Equity and Other Credits	$3,077,221	$37,781	$384,681	$226,347

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Asset Account Group	General Long-Term Debt Account Group	Totals (Memorandum) Only)
$43,029	$10,028	$14,459	$0	$0	$1,876,221
0	0	0	0	0	1,816,416
0	0	0	0	0	3,188
3,650	0	0	0	0	3,650
190	0	0	0	0	8,627
0	0	0	0	0	22,211
6,227	0	0	0	0	6,227
0	0	0	0	0	4,730
0	0	0	0	0	62,343
73,616	0	0	11,797,560	0	11,871,176
(43,644)	0	0	0	0	(43,644)
0	0	0	0	200,063	200,063
0	0	0	0	2,473,528	2,473,528
$83,068	$10,028	$14,459	$11,797,560	$2,673,591	$18,304,736
$2,100	$2,407	$272	$0	$0	$31,052
0	0	0	0	0	51,575
12,854		0	0	0	631,400
7,942	0	0	0	376,814	399,792
1,300	3,100	0	0	0	22,211
0	0	999	0	0	999
8,090	0	0	0	48,805	144,192
4,745	0	0	0	0	1,812,071
0	0	13,188	0	0	13,188
0	0	0	0	12,972	12,972
0	0	0	0	2,235,000	2,235,000
37,031	5,507	14,459	0	2,673,591	5,354,452
0	0	0	11,797,560	0	11,797,560
46,037	4,521	0	0	0	50,558
0	0	0	0	0	235,751
0	0	0	0	0	4,730
0	0	0	0	0	200,063
0	0	0	0	0	9,090
0	0	0	0	0	62,286
0	0	0	0	0	57
0	0	0	0	0	42,229
0	0	0	0	0	547,960
46,037	4,521	0	11,797,560	0	12,950,284
$83,068	$10,028	$14,459	$11,797,560	$2,673,591	$18,304,736

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

	Governmental Fund Types				Totals
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Revenues:					
Intergovernmental	$3,876,852	$109,374	$28,146	$199,463	$4,213,835
Interest	101,268	0	0	0	101,268
Tuition and Fees	67,951	0	0	0	67,951
Rent	2,906	0	0	0	2,906
Extracurricular Activities	0	162,715	0	0	162,715
Gifts and Donations	7,320	0	0	0	7,320
Customer Services	11,413	0	0	0	11,413
Property & Other Local Taxes	1,511,766	0	224,160	98,240	1,834,166
Miscellaneous	29,031	11,429	0	0	40,460
Total Revenues	5,608,507	283,518	252,306	297,703	6,442,034
Expenditures:					
Current:					
Instruction:					
Regular	3,097,412	70,744	0	113,362	3,281,518
Special	441,298	4,080	0	0	445,378
Vocational	144,360	0	0	0	144,360
Other	4,811	0	0	0	4,811
Support Services:					
Pupils	142,865	9,213	0	0	152,078
Instructional Staff	272,156	0	0	0	272,156
Board of Education	14,518	0	0	0	14,518
Administration	391,803	0	0	0	391,803
Fiscal	130,642	0	5,450	2,406	138,498
Operation and Maintenance of Plant	389,844	0	0	112,146	501,990
Pupil Transportation	164,083	0	0	3,000	167,083
Central	1,695	0	0	0	1,695
Non-Instructional Services	73	0	0	0	73
Extracurricular activities	139,805	159,636	0	0	299,441
Capital Outlay	34,877	0	0	490,950	525,827
Debt Service:					
Debt Service - Principal	0	0	60,000	0	60,000
Debt Service - Interest	0	0	127,293	0	127,293
Total Expenditures	5,370,242	243,673	192,743	721,864	6,528,522
Excess of Revenues Over (Under) Expenditures	238,265	39,845	59,563	(424,161)	(86,488)
Other Financing Sources and Uses					
Proceeds from Sale of Fixed Assets	135	0	0	0	135
Refund of Prior Year Expenditures	0	1,175	0	0	1,175
Total Other Financing Sources (Uses)	135	1,175	0	0	1,310
Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	238,400	41,020	59,563	(424,161)	(85,178)
Fund Balance at Beginning of Year	570,473	(18,993)	140,804	495,060	1,187,344
Fund Balance at End of Year	$808,873	$22,027	$200,367	$70,899	$1,102,166

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

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

	General Fund		
	Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Intergovernmental	$3,898,000	$3,890,628	($7,372)
Interest	80,000	101,980	21,980
Tuition and Fees	46,000	67,896	21,896
Rent	2,000	2,906	906
Extracurricular Activities	0	0	0
Gifts and Donations	2,000	7,320	5,320
Customer Services	6,000	11,413	5,413
Property & Other Local Taxes	1,470,000	1,511,051	41,051
Miscellaneous	15,000	29,031	14,031
Total Revenues	5,519,000	5,622,225	103,225
Expenditures:			
Current:			
Instruction:			
Regular	3,311,800	3,173,015	138,785
Special	444,700	439,839	4,861
Vocational	171,800	154,689	17,111
Other	5,000	4,811	189
Support Services:			
Pupils	160,800	146,452	14,348
Instructional Staff	286,200	269,391	16,809
Board of Education	18,600	16,419	2,181
Administration	427,595	416,388	11,207
Fiscal	144,700	126,114	18,586
Operation and Maintenance of Plant	524,100	391,035	133,065
Pupil Transportation	220,100	190,284	29,816
Central	2,800	1,709	1,091
Non-Instructional Services	900	73	827
Extracurricular activities	141,200	132,660	8,540
Capital Outlay	36,000	34,877	1,123
Debt Service:			
Debt Service - Principal	0	0	0
Debt Service - Interest	0	0	0
Total Expenditures	5,896,295	5,497,756	398,539
Excess of Revenues Over (Under) Expenditures	(377,295)	124,469	501,764
Other Financing Sources and Uses			
Proceeds from Sale of Fixed Assets	0	135	135
Refund of Prior Year Expenditures	0	0	0
Advances In	0	19,275	19,275
Operating Transfers Out	(151,000)	0	151,000
Advances Out	0	(28,100)	(28,100)
Total Other Financing Sources (Uses)	(151,000)	(8,690)	142,310
Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(528,295)	115,779	644,074
Fund Balances at Beginning of Year	1,240,696	1,240,696	0
Prior Year Encumbrances Appropriated	60,693	60,693	0
Fund Balance at end of Year	$773,094	$1,417,168	$644,074

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

Special Revenue			Debt Service			Capital Projects		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
$70,994	$68,570	($2,424)	$24,000	$16,035	($7,965)	$237,150	$199,463	($37,687)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
176,400	162,715	(13,685)	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	201,000	224,929	23,929	88,500	98,597	10,097
9,800	11,429	1,629	0	0	0	0	0	0
257,194	242,714	(14,480)	225,000	240,964	15,964	325,650	298,060	(27,590)
83,066	76,533	6,533	0	0	0	123,174	123,063	111
487	487	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
10,200	9,463	737	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	6,000	5,450	550	3,000	2,400	600
0	0	0	0	0	0	237,400	237,057	343
0	0	0	0	0	0	3,000	3,000	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
189,900	185,137	4,763	0	0	0	0	0	0
0	0	0	0	0	0	475,000	457,913	17,087
0	0	0	60,000	60,000	0	0	0	0
0	0	0	128,000	127,293	707	0	0	0
283,653	271,620	12,033	194,000	192,743	1,257	841,574	823,433	18,141
(26,459)	(28,906)	(2,447)	31,000	48,221	17,221	(515,924)	(525,373)	(9,449)
0	0	0	0	0	0	0	0	0
0	1,175	1,175	0	0	0	0	0	0
0	5,100	5,100	0	0	0	0	600	600
0	0	0	0	0	0	0	0	0
0	(1,275)	(1,275)	0	0	0	0	0	0
0	5,000	5,000	0	0	0	0	600	600
(26,459)	(23,906)	2,553	31,000	48,221	17,221	(515,924)	(524,773)	(8,849)
7,825	7,825	0	139,730	139,730	0	(30,730)	(30,730)	0
27,396	27,396	0	0	0	0	553,029	553,029	0
$8,762	$11,315	$2,553	$170,730	$187,951	$17,221	$6,375	($2,474)	($8,849)

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS PROPRIETARY FUND TYPES FOR THE YEAR ENDED JUNE 30, 1999

	Proprietary Fund Types		
	Enterprise	Internal Service	Totals (Memorandum Only)
Operating Revenues:			
Tuition	$4,357	$0	$4,357
Sales	175,021	0	175,021
Other Revenues	0	145,978	145,978
Total Operating Revenues	179,378	145,978	325,356
Operating Expenses:			
Salaries	72,483	0	72,483
Fringe Benefits	17,499	4,119	21,618
Purchased Services	2,144	0	2,144
Materials and Supplies	143,960	7,299	151,259
Depreciation	1,431	0	1,431
Other	0	126,717	126,717
Total Operating Expenses	237,517	138,135	375,652
Operating Loss	(58,139)	7,843	(50,296)
Non-Operating Revenues and Expenses:			
Federal Donated Commodities	25,929	0	25,929
Interest	634	0	634
Federal and State Subsidies	24,751	0	24,751
Total Non-Operating Revenues and Expenses	51,314	0	51,314
Net Income (Loss)	(6,825)	7,843	1,018
Retained Earnings at Beginning of Year	52,862	(3,322)	49,540
Retained Earnings at End of Year	$46,037	$4,521	$50,558

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

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

	Proprietary Fund Types		
	Enterprise	Internal Service	Totals Memorandum Only
Increase/(Decrease) in Cash & Cash Equivalents			
Cash Flows from Operating Activites:			
Cash Received from Sales	$175,021	$0	$175,021
Cash Received from Tuition and Fees	4,357	0	4,357
Other Cash Receipts	0	145,978	145,978
Cash Pmts. to Suppliers for Goods & Service	(116,679)	(4,892)	(121,571)
Cash Payments for Contract Services	(2,144)	0	(2,144)
Cash Payments for Employee Services	(71,852)	0	(71,852)
Cash Payments for Employee Benefits	(13,064)	(14,138)	(27,202)
Other Cash Payments	0	(126,717)	(126,717)
Net Cash Provided by (Used for) Operating Activities	(24,361)	231	(24,130)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Received	24,313	0	24,313
Advances In	1,300	3,100	4,400
Net Cash Provided by (Used for) Noncapital Financing Activities	25,613	3,100	28,713
Cash Flow from Investing Activities:			
Interest on Investments	444	0	444
Net Cash Provided by (Used for) Investing Activities	444	0	444
Cash Flows from Capital and Related Financing Activities:			
Payments for Capital Acquisitions	(3,544)	0	(3,544)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(3,544)	0	(3,544)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,848)	3,331	1,483
Cash & Cash Equivalents at Beginning of Year	44,877	6,697	51,574
Cash & Cash Equivalents at End of Year	$43,029	$10,028	$53,057
Reconciliation of Operating Income (loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Loss	($58,139)	$7,843	($50,296)
Adjustments to Reconcile Operating Loss To Net Cash Provided by (Used for) Operating Activities:			
Depreciation	1,431	0	1,431
Donated Commodities Used During the Year	25,929	0	25,929
(Increase) Decrease in Assets:			
Material and Supplies Inventory	1,053	0	1,053
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	599	0	599
Intergovernmental Payable	3,511	0	3,511
Deferred Revenue	(1,015)	0	(1,015)
Accounts Payable	1,314	2,407	3,721
Accrued Wages and Benefits	956	(10,019)	(9,063)
Total Adjustments	33,778	(7,612)	26,166
Net Cash Provided by (Used for) Operating Activities	($24,361)	$231	($24,130)

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

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1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The St. Henry Consolidated Local School District, Mercer County, Ohio, (the "District") is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and the laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to the residents of the District. Average daily membership (ADM) for FY 1999 was 1,173. The District employed 72 certificated employees and 39 non-certificated employees.

The District provides regular, vocational and special instruction. The District also provides support services for pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

Management believes the financial statements included in this report represent all of the funds of the District over which the Board of Education has the ability to exercise direct operating control.

Reporting Entity:

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

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

The District is associated with six organizations, which are defined as jointly governed organizations and public entity risk pools. These organizations include the (1) Northwest Ohio Area Computer Services Cooperative, (2) Local Professional Development Committee, (3) West Central Ohio Special Education Regional Resource Center, (4) West Central Regional Professional Development Center, (5) the Northwest Ohio Area Computer Services Worker's Compensation Group Rating Plan, and (6) the Mercer-Auglaize Area Schools Employee Benefit Trust. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

The 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 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 District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types

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

General Fund - The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of 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 - The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types

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

Enterprise Funds - Enterprise Funds are used to account for 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

Internal Service Funds - Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

Fiduciary Fund Types

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

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 District, other than those accounted for in the proprietary funds.

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

All proprietary funds are accounted for on 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 retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., 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 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 District is sixty days after fiscal year end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

The District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported 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 Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. 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.

<u>Tax Budget</u>

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 Mercer County Budget Commission for rate determination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

Appropriations

Upon receipt from the County Auditor of an amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be 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 District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

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

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

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. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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. The encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District Treasurer is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during fiscal year 1999 amounted to $101,268.

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 District are considered to be cash equivalents.

E. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

F. 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 the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Restricted Assets

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

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

Improvements are capitalized. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

In proprietary funds, depreciation is computed using the straight-line method over the asset's estimated useful life, and is also an element utilized in the determination of net income and is recorded annually as an expense. Assets in the general fixed assets account group are not depreciated.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

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

Entitlements
- General Fund
  - State Foundation Program
  - School Bus Purchase

Non-Reimbursable Grants
- Special Revenue Funds
  - Education Management Information Systems
  - Disadvantaged Pupil Impact Aid
  - Eisenhower Math & Science
  - Teacher Development Program
  - Title I
  - Title VI
  - Drug-Free Schools
- Capital Projects Funds
  - School Net
  - School Net Plus
  - Technology Equity

Reimbursable Grants
- General Fund
  - Driver Education
- Proprietary Funds
  - National School Lunch Program
  - Government Donated Commodities

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

J. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 District will compensate the employees for the benefits through paid time off or some other means. The 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 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 District's termination policy. The District records a liability for accumulated unused sick leave for classified employees, certified employees, and administrators after 20 years of current service with the District, or after 15 years of service and at least 45 years of age, or after 10 years of service and at least 50 years of age.

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 proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

M. Inter-fund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

N. Fund Balance Reserves and Designations

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves and Designations (Continued)

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 money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

The District designates a portion of fund equity to indicate tentative planned expenditures of financial resources. A fund balance designation has been established for the revenues set-aside for budget stabilization.

O. Use of Estimates

The preparation of the 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 could differ from those estimates.

P. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

At June 30, 1999, the Title I, Emergency School Building, and the Uniform School Supply Funds, had deficit fund balances of $4,055, $8,915, and $3,388, respectively, 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.

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

4. BUDGETARY BASIS OF ACCOUNTING

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

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

	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	$115,779	($23,906)	$48,221	($524,773)
Adjustments for:				
Revenue Accruals	(13,718)	40,804	11,342	(357)
Expenditure Accruals	26,385	1,479	0	(27,921)
Other Financing Sources (Uses)	8,825	(3,825)	0	(600)
Encumbrances	101,129	26,468	0	129,490
GAAP Basis	$238,400	$41,020	$59,563	($424,161)

5. DEPOSITS AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the District into three categories.

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

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

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

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

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

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

<u>Cash on Hand</u>: At fiscal year end, the District had $479 in undeposited cash on hand, which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents".

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

<u>Deposits:</u> At fiscal year end, the carrying amount of the District's deposits was ($57,752) and the bank balance was $45,000.

<u>Investments</u>: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name.

5. DEPOSITS AND INVESTMENTS (Continued)

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

	Category 3	Fair Value
Repurchase Agreement	$1,995,837	$1,995,837

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$1,938,564	$0
Cash on Hand	(479)	0
Investments:		
Repurchase Agreement	(1,995,837)	1,995,837
GASB Statement No. 3	($57,752)	$1,995,837

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 District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. 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. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. 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 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 District receives property taxes from Mercer and Darke Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 1999 are available to finance fiscal year 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, tangible personal property, and public utility taxes, which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

6. PROPERTY TAXES (Continued)

The amount available as an advance at June 30, 1999, was $8,645 in the General Fund, $304 was available to the Debt Service Fund and $141 was available to the Capital Projects Fund. The amount available as an advance at June 30, 1998, was $7,930 in the General Fund, $1,073 was available to the Debt Service Fund and $498 was available to the Capital Projects Fund.

The assessed values upon which 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	$47,577,990	85.53%	$49,395,880	85.05%
Public Utility	2,964,910	5.33%	3,051,000	5.25%
Tangible Personal Property	5,080,790	9.14%	5,633,540	9.70%
Total Assessed Value	$55,623,690	100.00%	$58,080,420	100.00%
Tax rate per $1,000 of assessed valuation	$38.30		$38.75	

7. RECEIVABLES

Receivables at June 30, 1999, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of receivables follows:

	Amounts
General Fund	
Taxes	$1,532,469
Accounts	3,188
Accrued Interest	8,437
Debt Service Fund	
Taxes	184,618
Capital Project Funds	
Taxes	99,329
Enterprise Funds	
Intergovernmental	3,650
Accrued Interest	190
Total Receivables	$1,831,881

8. FIXED ASSETS

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

Furniture and Equipment	$73,616
Less: Accumulated Depreciation	(43,644)
Net Fixed Assets	$29,972

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	Deletions	Balance at 6/30/99
Land and Improvements	$739,127	$0	$0	$739,127
Buildings	8,410,743	476,101	0	8,886,844
Furniture and Equipment	1,521,952	148,543	27,124	1,643,371
Vehicles	528,218	0	0	528,218
Totals	$11,200,040	$624,644	$27,124	$11,797,560

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

9. INTERFUND ACTIVITY

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

	Interfund	
Fund Type/Fund	Receivables	Payables
General Fund	$10,100	$12,111
Special Revenue Funds:		
District Managed Activity Fund	0	5,100
Debt Service Funds:		
Bond Retirement Fund	12,111	0
Capital Projects Funds:		
Emergency Building Repair	0	600
Enterprise Funds:		
Uniform School Supply	0	1,300
Internal Service Fund:		
Rotary	0	3,100
Total Interfund Activity	$22,211	$22,211

10. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the District's insurance coverage was as follows:

Building and Contents-replacement cost ($1,000 deductible)	$18,608,000
Boiler and Machinery ($500 deductible)	1,000,000
Crime Insurance	1,000
Automobile Liability ($250 deductible)	2,000,000
Uninsured Motorists ($250deductible)	300,000
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000
Umbrella Policy	2,000,000

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

10. RISK MANAGEMENT (Continued)

B. Worker's Compensation Group Program

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to education entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

C. Medical and Dental

The District participates in the Mercer-Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eight local school districts, two city school districts, and an educational service center. The District pays monthly premiums to the Trust for medical and dental benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS's Retirement Board. The District's contributions to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $47,400, $53,738, and $74,340, respectively; 58.7 percent has been contributed for fiscal year 1999 and 100 percent has been contributed for fiscal years 1998 and 1997. $19,561 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and general long-term obligation account group.

11. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefits are established by Chapter 3307, of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 1999, plan members are required to contribute 9.3 percent of their annual salary. The District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion to fund pension obligations was 10.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $177,838, $298,445, and $367,164, respectively; 82.9 percent has been contributed for fiscal year 1999 and 100 percent has been contributed for fiscal years 1998 and 1997. $30,408 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds.

C. Social Security System

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

12. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 1999, the STRS board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase of 3.5 percent for fiscal year 1999. For the District this amount equaled $237,117 during 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. For the year ended June 30, 1998, net health care costs paid by STRS were $219,224,000 and STRS had 91,999 eligible benefit recipients.

12. POSTEMPLOYMENT BENEFITS (Continued)

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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. 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. 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 surcharge, equaled $57,619 during the 1999 fiscal year.

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. Expense 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.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers, who are not on a twelve month contract, do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up the number of annual workdays per contract plus ninety, not to exceed 325 days. Upon retirement, payment is made for 50 percent of the total sick leave accumulation, up to maximum accumulation of 75 days for non-certified employees who with 10 or more years of service with the District.

For certified employees who have worked the preceding ten years for the District, payment will be made for 35 percent of unused accumulated sick leave.

B. Life Insurance

The District provides health insurance benefits to employees through the Mercer/Auglaize Schools Employee Benefits Trust. The premium varies with each employee depending on marital and family status. The District also provides dental insurance coverage through the same provider. The premium varies with each employee depending on marital and family status. The premium is a set fee per employee covered.

The District provides life insurance benefits of $30,000 per employee, whose benefits reduce to 42%, 28%, 19%, and 13% at ages 70, 75, 80, and 85, respectively, through CoreSource. The premium is a set fee per employee, which is reduced as above.

14. LONG-TERM OBLIGATIONS

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

	Balance at 06/30/98	Additions	Deductions	Balance at 06/30/99
1995 Elem/HS Improvement Bonds - 5.613%	$2,295,000	$ 0	$60,000	$2,235,000
1996 Land Acquisition Note - 7%	22,972	0	10,000	12,972
Total Long-Term Debt	$2,317,972	$ 0	$70,000	$2,247,972
Pension Obligation	44,535	4,270	0	48,805
Compensated Absences	351,747	25,067	0	376,814
Total Long-Term Obligations	$2,714,254	$29,337	$70,000	$2,673,591

Debt outstanding at June 30, 1999 consisted of general obligation bonds used for construction and improvements on the Elementary and High School buildings and a note for the purchase of land. The bond and note totaled $2,317,972.

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

The District's voted legal debt margin was $2,992,238 with an unvoted debt margin of $58,080 at June 30, 1999.

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

Fiscal year Ending June 30,	Principal	Interest	Total
2000	$72,972	$125,770	$198,742
2001	65,000	122,268	187,267
2002	65,000	119,505	184,505
2003	70,000	116,568	186,567
2004	70,000	113,452	183,453
2005-2009	415,000	510,724	925,724
2010-2014	555,000	358,556	913,556
2015-2019	760,000	151,298	911,298
2020	175,000	4,593	179,594
Total	$2,247,972	$1,622,734	$3,870,706

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

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

	Food Service	Uniform School Supplies	Adult Education	Total Enterprise Funds
Operating Revenues	$141,794	$33,227	$4,357	$179,378
Depreciation Expense	1,431	0	0	1,431
Operating Income (Loss)	(51,508)	(7,458)	827	(58,139)
Donated Commodities	25,929	0	0	25,929
Grants	24,751	0	0	24,751
Interest	634	0	0	634
Net Income (Loss)	(194)	(7,458)	827	(6,825)
Net Working Capital	14,443	(3,389)	5,011	16,065
Total Assets	78,046	11	5,011	83,068
Total Liabilities	33,631	3,400	0	37,031
Total Equity	44,415	(3,389)	5,011	46,037

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC). NOACSC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Financial information can be obtained from Marilyn Fruchey, who serves as fiscal agent treasurer, at Western Buckeye Educational Service Center, 202 N. Cherry St., P.O. Bax 176, Paulding, OH 45879.

B. Mercer County Local Professional Development Committee

The School District is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an 11 member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The Committee is an association of public school districts within the boundaries of Mercer County. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. The West Central Ohio Special Education Regional Resource Center (WCO-SERRC)

WCO-SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operations. The jointly governed organization was formed for the purpose of initiation, expanding and improving special education programs and services for children with disabilities and their parents.

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. The West Central Ohio Special Education Regional Resource Center (WCO-SERRC) (Continued)

WCO-SERRC is governed by a governing board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Hardin County Educational Service Center, One Courthouse Square, Suite 50, Kenton, OH 43326.

D. West Central Regional Professional Development Center (Center)

The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a governing board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Dorothy Oldham, Treasurer at the Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

17. INSURANCE PURCHASING POOL

A. Northwest Ohio Area Computer Services Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Northwest Ohio Area Computer Services Workers' Compensation Group Rating Program (the "Plan"), was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as a group purchasing pool.

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

B. Mercer-Auglaize Employee Benefit Trust

The Mercer-Auglaize Employee Benefit Trust (the Plan), is public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two educational service centers. The Plan is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Mid-American Bank, concerning aspects of the administration of the Trust.

Each school district decides which plans offered by the Board of Trustees will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums. Financial information can be obtained from James Mauntler, who serves as consultant with Schmidt, Long, and Associates, at 4169 North Holland Sylvania Road, Suite 203, Building 3, Toledo, Ohio 43623.

18. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Balance as of June 30, 1998	$0	$0	$19,775	$19,775
Revenue Required to be Set-aside	85,021	85,021	42,511	212,553
Off-set for the current year	(17,385)	(98,465)	0	115,850
Qualifying Expenditures (Paid in Cash)	(134,005)	(22,876)	0	173,934
Balance as of June 30, 1999	(54,385)	(65,357)	$62,286	57,456
Cash Carried Forward to Fiscal Year 2000	$0	$0	$62,286	62,286
Amount restricted for bus purchases				57
Total Restricted Cash and Cash Equivalents				$62,343

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

19. CONTRACTUAL COMMITTMENTS

As of June 30, 1999 the District had contractual purchase commitments as follows:

Company	Project	Amount Remaining On Contract
Cardinal Bus Sales	Bus Body	$21,297
Larger Incorporated	ADA Elevator General Contractor	95,909
Frost and Company, Inc.	Plumbing and HVAC - ADA Elevator	15,500
Buscher Electric	Electrical - ADA Elevator	9,279

20. 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 government's operations.

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS).

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, and State of Ohio uniform School Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

20. YEAR 2000 ISSUE (Continued)

The State of Ohio distributes a substantial sum of money to the District in the form of "Foundation" payments. Further, the State processes a significant amount of financial and nonfinancial information about the District through EMIS. The State is responsible for remediating these systems.

To the best of management's knowledge and belief, as of January 21, 2000, the District experienced no significant interruption of mission critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the District does business may also experience Year 2000 readiness issues that are as yet, unknown.

21. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1999, the District received $3,850,443 of school foundation support for its general fund.

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

At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in the Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

22. CONTINGENCIES

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

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COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1998

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
Assets and Other Debits:				
Equity in Pooled Cash and Cash Equivalents	$1,281,614	$35,219	$139,731	$522,301
Receivables:				
Taxes	1,464,934	0	221,486	96,502
Intergovernmental	4,798	0	0	0
Accrued Interest	9,149	0	0	0
Interfund Receivable	1,275	0	0	0
Materials and Supplies Inventory	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	19,775	0	0	0
Fixed Assets	0	0	0	0
Accumulated Depreciation	0	0	0	0
Other Debits:				
Amount in Debt Service Fund for Retirement of	0	0	0	0
Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	$2,781,545	$35,219	$361,217	$618,803
Liabilities:				
Accounts Payable	$31,724	$15,725	$0	$12,846
Accrued Wages and Benefits	597,427	3,372	0	14,893
Compensated Absences Payable	38,324	0	0	0
Interfund Payable	0	1,275	0	0
Due to Other Funds	0	0	0	0
Intergovernmental Payable	86,593	33,840	0	0
Deferred Revenue	1,457,004	0	220,413	96,004
Due to Students	0	0	0	0
Land Acquistion Note	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	2,211,072	54,212	220,413	123,743
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved:				
Reserved for Encumbrances	37,817	19,958	0	367,558
Reserved for Debt Service	0	0	139,731	0
Reserved for Property Taxes	7,930	0	1,073	498
Resreved for Budget Stabilization	19,775	0	0	0
Unreserved:				
Unreserved, Undesignated	504,951	(38,951)	0	127,004
Total Fund Equity and Other Credits	570,473	(18,993)	140,804	495,060
Total Liabilities, Fund Equity and Other Credits	$2,781,545	$35,219	$361,217	$618,803

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Asset Account Group	General Long-Term Debt Account Group	Totals (Memorandum) Only)
$44,877	$6,697	$11,527	$0	$0	$2,041,966
0	0	0	0	0	1,782,922
3,212	0	0	0	0	8,010
0	0	0	0	0	9,149
0	0	0	0	0	1,275
7,280	0	0	0	0	7,280
0	0	0	0	0	19,775
70,072	0	0	11,200,040	0	11,270,112
(42,213)	0	0	0	0	(42,213)
0	0	0	0	139,731	139,731
0	0	0	0	2,574,523	2,574,523
$83,228	$6,697	$11,527	$11,200,040	$2,714,254	$17,812,530
$786	$0	$200	$0	$0	$61,281
11,898	10,019	0	0	0	637,609
7,343	0	0	0	351,747	397,414
0	0	0	0	0	1,275
0	0	999	0	0	999
4,579	0	0	0	44,535	169,547
5,760	0	0	0	0	1,779,181
0	0	10,328	0	0	10,328
0	0	0	0	22,972	22,972
0	0	0	0	2,295,000	2,295,000
30,366	10,019	11,527	0	2,714,254	5,375,606
0	0	0	11,200,040	0	11,200,040
52,862	(3,322)	0	0	0	49,540
0	0	0	0	0	425,333
0	0	0	0	0	139,731
0	0	0	0	0	9,501
0	0	0	0	0	19,775
0	0	0	0	0	593,004
52,862	(3,322)	0	11,200,040	0	12,436,924
$83,228	$6,697	$11,527	$11,200,040	$2,714,254	$17,812,530

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1998

	Proprietary Fund Types		
	Enterprise	**Internal Service**	**Totals (Memorandum Only)**
Operating Revenues:			
Tuition	$3,084	$0	$3,084
Sales	141,885	0	141,885
Other Revenues	38,958	133,227	172,185
Total Operating Revenues	183,927	133,227	317,154
Operating Expenses:			
Salaries	60,982	0	60,982
Fringe Benefits	16,675	23,695	40,370
Purchased Services	2,482	462	2,944
Materials and Supplies	137,166	2,447	139,613
Depreciation	1,796	0	1,796
Other	0	115,657	115,657
Capital Outlay	501	0	501
Total Operating Expenses	219,602	142,261	361,863
Operating Loss	(35,675)	(9,034)	(44,709)
Non-Operating Revenues and Expenses:			
Federal Donated Commodities	20,209	0	20,209
Federal and State Subsidies	24,853	0	24,853
Loss on Sale of Fixed Assets	(873)	0	(873)
Total Non-Operating Revenues and Expenses	44,189	0	44,189
Net Income (Loss)	8,514	(9,034)	(520)
Retained Earnings at Beginning of Year	44,348	5,712	50,060
Retained Earnings at End of Year	$52,862	($3,322)	$49,540

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

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET(NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1998**

	General Fund		
	Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Intergovernmental	$3,663,000	$3,710,986	$47,986
Interest	80,000	91,616	11,616
Tuition and Fees	46,000	60,149	14,149
Rent	2,000	3,002	1,002
Extracurricular Activities	0	0	0
Gifts and Donations	2,000	2,200	200
Customer Services	6,000	9,719	3,719
Property & Other Local Taxes	1,385,000	1,405,203	20,203
Miscellaneous	15,000	22,013	7,013
Total Revenues	5,199,000	5,304,888	105,888
Expenditures:			
Current:			
Instruction:			
Regular	3,039,560	2,972,280	67,280
Special	314,300	307,811	6,489
Vocational	215,600	194,960	20,640
Other	4,500	1,965	2,535
Support Services:			
Pupils	157,600	150,651	6,949
Instructional Staff	256,050	241,033	15,017
Board of Education	16,800	12,177	4,623
Administration	409,240	396,715	12,525
Fiscal	156,900	134,729	22,171
Operation and Maintenance of Plant	423,200	404,006	19,194
Pupil Transportation	187,300	169,350	17,950
Central	3,500	2,365	1,135
Non-Instructional Services	900	160	740
Extracurricular activities	137,050	123,150	13,900
Capital Outlay	18,000	14,230	3,770
Debt Service:			
Debt Service - Principal	0	0	0
Debt Service - Interest	0	0	0
Total Expenditures	5,340,500	5,125,582	214,918
Excess of Revenues Over (Under) Expenditures	(141,500)	179,306	320,806
Other Financing Sources and Uses			
Proceeds from Sale of Fixed Assets	0	799	799
Refund of Prior Year Expenditures	0	19,775	19,775
Advances In	0	0	0
Advances Out	0	(1,275)	(1,275)
Total Other Financing Sources (Uses)	0	19,299	19,299
Excess of Revenues and Other Sources over Expenditures and Other Uses	(141,500)	198,605	340,105
Fund Balances at Beginning of Year	979,952	979,952	0
Prior Year Encumbrances Appropriated	62,140	62,140	0
Fund Balance at end of Year	$900,592	$1,240,697	$340,105

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

Special Revenue			Debt Service			Capital Projects		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
$66,411	$56,672	($9,739)	$24,000	$26,718	$2,718	$638,200	$582,706	($55,494)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
167,200	142,898	(24,302)	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	201,000	209,931	8,931	88,500	91,663	3,163
9,100	7,526	(1,574)	0	0	0	0	0	0
242,711	207,096	(35,615)	225,000	236,649	11,649	726,700	674,369	(52,331)
52,198	42,049	10,149	0	0	0	332,639	322,818	9,821
24,519	22,333	2,186	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
10,239	8,228	2,011	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	6,000	5,284	716	5,000	2,329	2,671
0	0	0	0	0	0	110,000	107,049	2,951
0	0	0	0	0	0	19,000	18,736	264
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
171,900	150,041	21,859	0	0	0	0	0	0
0	0	0	0	0	0	438,000	436,152	1,848
0	0	0	55,000	55,000	0	0	0	0
0	0	0	130,000	129,565	435	0	0	0
258,856	222,651	36,205	191,000	189,849	1,151	904,639	887,084	17,555
(16,145)	(15,555)	590	34,000	46,800	12,800	(177,939)	(212,715)	(34,776)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	1,275	1,275	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	1,275	1,275	0	0	0	0	0	0
(16,145)	(14,280)	1,865	34,000	46,800	12,800	(177,939)	(212,715)	(34,776)
2,277	2,277	0	92,931	92,931	0	160,141	160,141	0
19,826	19,826	0	0	0	0	21,846	21,846	0
$5,958	$7,823	$1,865	$126,931	$139,731	$12,800	$4,048	($30,728)	($34,776)

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS PROPRIETARY FUND TYPES FOR THE YEAR ENDED JUNE 30, 1998

	Proprietary Fund Types		
	Enterprise	Internal Service	Totals (Memorandum Only)
Operating Revenues:			
Tuition	$3,084	$0	$3,084
Sales	141,885	0	141,885
Other Revenues	38,958	133,227	172,185
Total Operating Revenues	183,927	133,227	317,154
Operating Expenses:			
Salaries	60,982	0	60,982
Fringe Benefits	16,675	23,695	40,370
Purchased Services	2,482	462	2,944
Materials and Supplies	137,166	2,447	139,613
Depreciation	1,796	0	1,796
Other	0	115,657	115,657
Capital Outlay	501	0	501
Total Operating Expenses	219,602	142,261	361,863
Operating Loss	(35,675)	(9,034)	(44,709)
Non-Operating Revenues and Expenses:			
Federal Donated Commodities	20,209	0	20,209
Federal and State Subsidies	24,853	0	24,853
Loss on Sale of Fixed Assets	(873)	0	(873)
Total Non-Operating Revenues and Expenses	44,189	0	44,189
Net Income (Loss)	8,514	(9,034)	(520)
Retained Earnings at Beginning of Year	44,348	5,712	50,060
Retained Earnings at End of Year	$52,862	($3,322)	$49,540

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

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1998

	Proprietary Fund Types		Totals
	Enterprise	Internal Service	(Memorandum) Only)
Increase/(Decrease) in Cash & Cash Equivalents			
Cash Flows from Operating Activites:			
Cash Received from Sales	$141,885	$0	$141,885
Cash Received from Tuition and Fees	3,084	0	3,084
Other Cash Receipts	38,958	133,227	172,185
Cash Pmts. to Suppliers for Goods & Service	(122,355)	(5,330)	(127,685)
Cash Payments for Contract Services	(2,482)	(462)	(2,944)
Cash Payments for Employee Services	(67,269)	0	(67,269)
Cash Payments for Employee Benefits	(11,505)	(13,676)	(25,181)
Other Cash Payments	0	(115,657)	(115,657)
Net Cash Provided by (Used for) Operating Activities	(19,684)	(1,898)	(21,582)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Received	24,349	0	24,349
Net Cash Provided by (Used for) Noncapital Financing Activities	24,349	0	24,349
Cash Flows from Capital and Related Financing Activities:			
Payments for Capital Acquisitions	(8,726)	0	(8,726)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(8,726)	0	(8,726)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,061)	(1,898)	(5,959)
Cash & Cash Equivalents at Beginning of Year	48,938	8,595	57,533
Cash & Cash Equivalents at End of Year	$44,877	$6,697	$51,574
Reconciliation of Operating Income (loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Loss	($35,675)	($9,034)	($44,709)
Adjustments to Reconcile Operating Loss To Net Cash Provided by (Used for) Operating Activities:			
Depreciation	1,796	0	1,796
Donated Commodities Used During the Year	20,209	0	20,209
Adjustments to Capital Outlay	501	0	501
(Increase) Decrease in Assets:			
Material and Supplies Inventory	(136)	0	(136)
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	482	0	482
Intergovernmental Payable	(2,205)	0	(2,205)
Deferred Revenue	397	0	397
Accounts Payable	(5,659)	(2,883)	(8,542)
Accrued Wages and Benefits	606	10,019	10,625
Total Adjustments	15,991	7,136	23,127
Net Cash Provided by (Used for) Operating Activities	($19,684)	($1,898)	($21,582)

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1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The St. Henry Consolidated Local School District (the "District"), is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and the laws of the State of Ohio.

The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to the residents of the District. Average daily membership (ADM) for FY 1998 was 1,161. The District employed 71 certificated employees and 35 non-certificated employees.

The District provides regular, vocational and special instruction. The District also provides support services for pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and nonprogrammed.

Management believes the financial statements included in this report represent all of the funds of the District over which the Board of Education has the ability to exercise direct operating control.

Reporting Entity:

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

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

The District is associated with five organizations, which are defined as jointly governed organizations and public entity risk pools. These organizations include the (1) Northwest Ohio Area Computer Services Cooperative, (2) Local Professional Development Committee, (3) West Central Ohio Special Education Regional Resource Center, (4) the Northwest Ohio Area Computer Services Worker's Compensation Group Rating Plan, and (5) the Mercer-Auglaize Area Schools Employee Benefit Trust. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the St. Henry Consolidated Local District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

The 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 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 District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types

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

General Fund - The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of 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 - The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types

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

Enterprise Funds - Enterprise Funds are used to account for 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

Internal Service Funds - Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

Fiduciary Fund Types

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

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 District, other than those accounted for in the proprietary funds.

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

All proprietary funds are accounted for on 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 retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., 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 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 District is sixty days after fiscal year end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

The 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, 1998, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 1999 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported 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 Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. 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.

<u>Tax Budget</u>

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 Mercer County Budget Commission for rate determination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's Certificate of Estimated Resources, which states the projected revenue of each fund.

Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1998.

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 must be 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 District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

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

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. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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. The encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District Treasurer is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during fiscal year 1998 amounted to $91,151.

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 District are considered to be cash equivalents.

E. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1998 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Department of Education. During fiscal year 1998, the District received a $19,775 refund from the Bureau of Workers' Compensation which State statute required to be included in this reserve. This refund is presented as miscellaneous revenue in the accompanying financial statements. A fund balance reserve has also been established.

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

Improvements are capitalized. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

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

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

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

Entitlements
- General Fund
  - State Foundation Program
  - School Bus Purchase

Non-Reimbursable Grants
- Special Revenue Funds
  - Education Management Information Systems
  - Disadvantaged Pupil Impact Aid
  - Eisenhower Math & Science
  - Teacher Development Program
  - Title I
  - Title VI
  - Drug-Free Schools
- Capital Projects Funds
  - School Net
  - School Net Plus
  - Technology Equity

Reimbursable Grants
- General Fund
  - Driver Education
- Proprietary Funds
  - National School Lunch Program
  - Government Donated Commodities

Grants and entitlements amounted to approximately 64 percent of the District's operating revenue during the 1998 fiscal year.

J. Interfund Assets/Liabilities

Short-term interfund loans are classified as “interfund receivables” and “interfund payables”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 District will compensate the employees for the benefits through paid time off or some other means. The 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 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 District's termination policy. The District records a liability for accumulated unused sick leave for classified employees, certified employees, and administrators after 20 years of current service with the District, or after 15 years of service and at least 45 years of age, or after 10 years of service and at least 50 years of age.

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 proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

M. Interfund Transactions

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

N. Fund Balance Reserves

The District records reservations for portions of fund equity which are legally segregated for 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 are established for encumbrances, prepayments, debt service and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization is required by State statute and can be used only after receiving approval from the State Department of Education. During fiscal year 1998, the District received a refund from the Bureau of Workers' Compensation which State statute required to be included in this reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Use of Estimates

The preparation of the 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 could differ from those estimates.

P. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

At June 30, 1998, the Eisenhower Grant, Title VI-B, Title I, and Special Rotary funds had deficit fund balances of $3,203, $33,840, $3,162, and $3,322, respectively 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.

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

C. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	$198,605	($14,280)	$46,800	($212,715)
Adjustments for:				
Revenue Accruals	4,904	(2,018)	122	88
Expenditure Accruals	(56,306)	(44,769)	0	(7,709)
Other Financing Sources (Uses)	1,275	(1,275)	0	0
Encumbrances	60,692	27,396	0	553,028
GAAP Basis	$209,170	($34,946)	$46,922	$332,692

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

1. Bonds, notes, or other obligations guaranteed by the United States;

2. Bonds, notes, or other obligations issued by any federal government agency;

3. Certificates of deposit in accordance with Section 135.32 of the Ohio Revised Code;

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

5. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of Ohio or its political subdivisions;

6. The Ohio State Treasurer's investment pool (STAR);

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

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

Investments in stripped principal or interest obligations, reverse purchase 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Funds invested by fiscal agents are determined by trust agreements and bond indentures. Like the cash invested by the District Treasurer, eligible investments include U.S. government obligations, U.S. government agencies, and certificate of deposit.

Any public depository, at the time it receives a District deposit or investment in a certificate of deposit, is required to pledge to the investing authority as collateral eligible securities of aggregate market value that, when added to the portion of the deposit insured by the Federal Deposit Insurance Corporation or the Savings Association Fund, equals or exceeds the amount of District funds deposited.

A public depository may at its option pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current market value at least equal to 110 percent of all public monies on deposit with the depository including the amount covered by federal insurance.

5. DEPOSITS AND INVESTMENTS (Continued)

Cash on Hand: At fiscal year end, the District had $546 in undeposited cash on hand which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents".

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

Deposits: At fiscal year end, the carrying amount of the District's deposits was ($25,546) and the bank balance was $45,000. The bank balance was covered by federal depository insurance.

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

	Category 3 Carrying Value	Market Value
Repurchase Agreement	$2,086,741	$2,086,741

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$2,061,741	$0
Cash on Hand	(546)	0
Investments:		
Repurchase Agreement	(2,086,741)	2,086,741
GASB Statement No. 3	($25,546)	$2,086,741

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 District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. 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. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. 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 year. Tangible personal property assessments are 25 percent of true value.

6. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 1998 taxes were collected are:

	1997 Second-Half Collections		1998 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	$46,288,200	85.56%	$47,577,990	85.53%
Public Utility	2,819,900	5.21%	2,964,910	5.33%
Tangible Personal Property	4,993,140	9.23%	5,080,790	9.14%
Total Assessed Value	$54,101,240	100.00%	$55,623,690	100.00%
Tax rate per $1,000 of assessed valuation	$39.90		$38.30	

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 District receives property taxes from Mercer and Darke Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 1998 are available to finance fiscal year 1998 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, tangible personal property, and public utility taxes, which became measurable as of June 30, 1998. Although total property tax collections for the next fiscal year are measurable, 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, 1998, was $9,501 and is recognized as revenue. $7,930 was available to the General Fund, $1,073 was available to the Debt Service Fund and $498 was available to the Capital Projects Fund.

7. INTERFUND ACTIVITY

As of June 30, 1998 receivables and payables that resulted from various interfund transactions were as follows:

	Interfund	
Fund Type/Fund	Receivables	Payables
General Fund	$1,275	$0
Special Revenue Funds:		
Public School Support Fund	0	100
Eisenhower Grant	0	1,175
Total Special Revenue Fund	0	1,275
Total Interfund Activity	$1,275	$1,275

8. RECEIVABLES

Receivables at June 30, 1998, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of receivables follows:

	Amounts
General Fund	
Taxes	$1,464,934
Accrued Interest	9,149
Intergovernmental	4,798
Total General Fund	1,478,881
Debt Service Fund	
Taxes	221,486
Capital Project Funds	
Taxes	96,502
Enterprise Funds	
Intergovernmental	3,212
Total Receivables	$1,800,081

9. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 1998, follows:

Furniture and Equipment	$70,072
Less: Accumulated Depreciation	(42,213)
Net Fixed Assets	$27,859

A summary of the changes in general fixed assets during fiscal year 1998 follows:

Asset Category	Balance at 6/30/97	Additions	Deletions	Balance at 6/30/98
Land and Improvements	$ 739,127	$0	$0	$739,127
Buildings	8,410,743	0	0	8,410,743
Furniture and Equipment	1,398,409	283,000	159,457	1,521,952
Vehicles	490,472	98,000	60,254	528,218
Totals	$11,038,751	$381,000	$219,711	$11,200,040

There was no significant construction in progress at June 30, 1998.

10. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1998, the District's insurance coverage was as follows:

Building and Contents-replacement cost ($1,000 deductible)	$18,608,000
Boiler and Machinery ($500 deductible)	1,000,000
Crime Insurance	1,000
Automobile Liability ($250 deductible)	2,000,000
Uninsured Motorists ($250deductible)	300,000
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000
Umbrella Policy	2,000,000

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

B. Worker's Compensation Group Program

The District participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 16). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to education entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

C. Medical and Dental

The District participates in the Mercer-Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eight local school districts, two city school districts, and an educational service center. The District pays monthly premiums to the Trust for medical and dental benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established and may be amended, up to statutory maximum amounts, by SERS's Retirement Board. The adequacy of the contribution rates is determined annually.

The District's contributions to SERS for the fiscal years ended June 30, 1998, 1997, and 1996 were $53,738, $74,340, and $65,184, respectively; 58.6 percent has been contributed for fiscal year 1998 and 100 percent has been contributed for fiscal years 1997 and 1996. $22,235 representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds and general long-term obligation account group.

B. State Teachers Retirement System

The St. Henry Consolidated Local District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefits are established by Chapter 3307, of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1998, 1997, and 1996 were $298,445, $367,164, and $348,461, respectively; 81.9 percent has been contributed for fiscal year 1998 and 100 percent has been contributed for fiscal years 1997 and 1996. $53,958 representing the unpaid contribution for fiscal year 1998 is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1998, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

The State Teachers Retirement Board has discretionary authority over how much, or 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. The Ohio Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of the covered payroll.

The board currently allocates employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled $99,482 during the 1998 fiscal year. The balance in the Health Care Reserve Fund was $1,860 million at June 30, 1997. For the year ended June 30, 1997, the net health care costs paid by STRS were $192,077,000. There were 88,718 eligible benefit recipients.

B. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 1998, the allocation rate is 4.98 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 1997, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the District this amount, including the surcharge, equaled $44,292 during the 1998 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for the health care at June 30, 1997, were $97,429,197 and the target level was $121.8 million. At June 30, 1997, the Retirement System's net assets available for payment of health care benefits were $146.4 million. The number of participants currently receiving health care benefits is approximately 48,200.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers, who are not on a twelve month contract, do not earn vacation time.

13. OTHER EMPLOYEE BENEFITS (Continued)

A. Compensated Absences (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up the number of annual work days per contract plus ninety, not to exceed 325 days. Upon retirement, payment is made for 50 percent of the total sick leave accumulation, up to maximum accumulation of 75 days for non-certified employees who with 10 or more years of service with the District.

For certified employees who have worked the preceding ten years for the District, payment will be made for 35 percent of unused accumulated sick leave.

B. Life Insurance

The District provides health insurance benefits to employees through the Mercer/Auglaize Schools Employee Benefits Trust. The premium varies with each employee depending on marital and family status. The District also provides dental insurance coverage through the same provider. The premium varies with each employee depending on marital and family status. The premium is a set fee per employee covered.

The District provides life insurance benefits of $30,000 per employee, whose benefits reduce to 42%, 28%, 19%, and 13% at ages 70, 75, 80, and 85, respectively, through CoreSource. The premium is a set fee per employee, which is reduced as above.

14. LONG-TERM OBLIGATIONS

The changes in the District’s long-term obligations during fiscal year 1998 were as follows:

	Balance at 06/30/97	Additions	Deductions	Balance at 06/30/98
1995 Elem/HS Improvement Bonds - 5.613%	$2,350,000	$0	$55,000	$2,295,000
1996 Land Acquisition Note - 7%	32,972	0	10,000	22,972
Total Long-Term Debt	$2,382,972	0	$65,000	$2,317,972
Pension Obligation	38,468	6,067	0	44,535
Compensated Absences	291,400	60,347	0	351,747
Total Long-Term Obligations	$2,712,840	$66,414	$65,000	$2,714,254

Debt outstanding at June 30, 1998 consisted of general obligation bonds used for construction and improvements on the Elementary and High School buildings and a note for the purchase of land. The bond and note totaled $2,317,972.

Compensated absences and the pension obligation will be paid from the fund from which the employees’ salaries are paid.

The District's voted legal debt margin was $4,799,582 with an unvoted debt margin of $55,624 at June 30, 1998.

14. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 1998, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
1999	$70,000	$128,901	$198,901
2000	72,972	125,771	198,743
2001	65,000	122,267	187,267
2002	65,000	119,505	184,505
2003	70,000	116,568	186,568
2004-2008	395,000	531,094	926,094
2009-2013	520,000	395,913	915,913
2014-2018	715,000	193,374	908,374
2019-2020	345,000	18,243	363,244
Total	$2,317,972	$1,751,636	$4,069,608

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains three enterprise funds to account for the operations of food service, uniform school supplies, and adult education. The table below reflects the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 1998.

	Food Service	Uniform School Supplies	Adult Education	Total Enterprise Funds
Operating Revenues	$141,885	$38,958	$3,084	$183,927
Depreciation Expense	1,796	0	0	1,796
Operating Income (Loss)	(39,986)	4,530	(219)	(35,675)
Donated Commodities	20,209	0	0	20,209
Grants	24,853	0	0	24,853
Net Income (Loss)	4,203	4,530	(219)	8,514
Net Working Capital	15,230	4,069	4,184	23,483
Total Assets	74,189	4,855	4,184	83,228
Total Liabilities	29,580	786	0	30,366
Total Equity	44,609	4,069	4,184	52,862

16. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC). NOACSC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of NOACSC consists of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from each county elected by a majority vote of all charter member schools within each county plus one representative and the fiscal agent. To obtain financial information write to Michael Wildermuth, Director, at the Northwest Ohio Area Computer Services Cooperative, at 645 South Main Street, Lima, Ohio 45804.

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Mercer County Local Professional Development Committee -The School District is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an 11 member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The Committee is an association of public school districts within the boundaries of Mercer County. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

The West Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a jointly governed organization among the school districts in Allen, Auglaize, Champion, Hardin, Logan, Mercer, and Shelby Counties. The purpose of the jointly governed organization is to assist schools to develop quality special education programs and services. The governing board is made up of superintendents from the schools, parents of children with disabilities, representatives of chartered nonpublic schools and universities. Currently, the St. Henry Consolidated Local School District does not have representation on the governing board or the advisory board. The St. Henry Consolidated Local School District is not able to impose its will on the SERRC and no financial benefit/burden relationship exists. During fiscal year 1997, the District did not contribute any funds to SERRC.

17. INSURANCE PURCHASING POOL

Northwest Ohio Area Computer Services Workers' Compensation Group Rating Plan -The District participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Northwest Ohio Area Computer Services Workers' Compensation Group Rating Program (the "Plan"), was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as a group purchasing pool.

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

Mercer-Auglaize Employee Benefit Trust - The Mercer-Auglaize Employee Benefit Trust (the Plan), is public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two educational service centers. The Plan is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Mid-American Bank, concerning aspects of the administration of the Trust.

Each school district decides which plans offered by the Board of Trustees will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums. Financial information can be obtained from James Mauntler, who serves as consultant with Schmidt, Long, and Associates, at 4169 North Holland Sylvania Road, Suite 203, Building 3, Toledo, Ohio 43623.

18. CONTRACTUAL COMMITTMENTS

As of June 30, 1998, the District had contractual purchase commitments as follows:

Company	Project	Amount Remaining On Contract
Garman/Miller & Assoc.	Architectural Services	$14,137
Applied Training Systems	Robotics	29,582
E. L. Davis	Boiler Replacement	11,132
Ohio / Indiana Roofing Co.	Roof Replacement	103,814
Regal Plumbing and Heating	Waterline Replacement	78,623
Trisco Systems, Inc.	Exterior Masonry Restoration	164,493

19. YEAR 2000 ISSUE

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

The school district has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS).

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, and State of Ohio uniform School Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the District in the form of "Foundation" payments. Further, the State processes a significant amount of financial and nonfinancial information about the District through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the 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.

20. STATE SCHOOL FUNDING DECISION

On March 24, 1998, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. For the fiscal year ended June 30, 1998, the District received $3,886,805 in school foundation support in total (all funds).

20. STATE SCHOOL FUNDING DECISION (Continued)

Since the Supreme Court Ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County is currently reviewing the new laws to determine whether they are constitutional under the “thorough and efficient” clause of the Ohio Constitution. According to the Ohio Attorney General’s Office, a decision is expected from Perry County Court sometime in early calendar year 1999, either party then has the right to appeal that decision directly to the Ohio Supreme Court. Any decision made by the Court of Common Pleas is likely to be appealed.

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.

21. CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 1998.

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

St. Henry Consolidated Local School District
Mercer County
371 East Columbus Street
St. Henry, OH 45883

To the Board of Education:

We have audited the financial statements of St. Henry Consolidated Local School District, Mercer County, Ohio, (the District) as of and for the years ended June 30, 1999 and June 30, 1998, and have issued our report thereon dated January 21, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1999-10254-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 21, 2000.

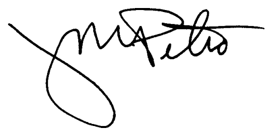
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as items 1999-10254-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 21, 2000.

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



JIM PETRO
Auditor of State

January 21, 2000

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

Finding Number	**1999-10254-001**

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certificate should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over $1,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

The District had nineteen instances out of sixty transactions where a purchase order, which indicates certification of funds, was attached to the invoice but the purchase order date was after the invoice date. Thus, prior certification was not apparent.

It is recommended that the District implement procedures which would assist in providing adherence with this compliance requirement.

Finding Number	**1999-10254-002**

The District does not have procedures in place to accurately track and monitor additions to and deletions from fixed assets. The lack of specific procedures resulted in numerous items not being recorded, and/or not being recorded at the original cost, and also, the inability of management to accurately account for fixed asset deletions.

Without an adequate system in place to accurately track and monitor additions to, and approve deletions from the fixed asset listing, the possibility exists for material errors in financial reporting and/or irregularities to occur and not be detected during the normal course of operations.

The District should establish procedures whereby one individual is assigned the responsibility for monitoring fixed asset additions, deletions and movements. This could be accomplished through the development of a series a fixed asset forms to specifically track the addition, deletion or movement of fixed assets. These forms could then be utilized as a source document for posting to the inventory system.

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ST. HENRY CONSOLIDATED LOCAL SCHOOL DISTRICT

MERCER 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
FEBRUARY 15, 2000