HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Hopewell-Loudon Local School District
Seneca County
290 North County Road 7
P.O. Box 400
Bascom, Ohio 44809-0400

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2001 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 22, 2001

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HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	$785,358	$106,737	$149,291	$61,785
Cash with fiscal agent		2,366		
Cash in segregated accounts		1,049		
Receivables (net of allowances of uncollectibles):				
Taxes - current and delinquent	1,940,874		189,527	
Accounts	1,258	1,135		
Interfund loan receivable	4,650			
Prepayments	7,234			
Materials and supplies inventory	13,115			
Restricted assets:				
Equity in pooled cash and cash equivalents	56,681			
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	**$2,809,170**	**$111,287**	**$338,818**	**$61,785**

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$20,043	$14,153	$61,912			$1,199,279
					2,366
		405			1,454
					2,130,401
227	12				2,632
					4,650
					7,234
12,888					26,003
					56,681
7,872			$4,754,689		4,762,561
				$167,760	167,760
				987,206	987,206
$41,030	**$14,165**	**$62,317**	**$4,754,689**	**$1,154,966**	**$9,348,227**

(Continued)

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	$20,935	$2,916		
Accrued wages and benefits	343,291	8,322		
Compensated absences payable	7,455			
Pension obligation payable	56,536	780		
Claims payable				
Deferred revenue	1,751,743		$171,058	
Interfund loan payable				
Due to other governments	1,488			
Due to students				
Undistributed assets				
General obligation bonds payable				
Energy conservation loan payable				
Total liabilities	2,181,448	12,018	171,058	
Equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings (accumulated deficit): unreserved				
Fund balances:				
Reserved for encumbrances	89,501	25,036	750	$15,825
Reserved for supplies inventory	13,115			
Reserved for prepayments	7,234			
Reserved for debt service			148,541	
Reserved for tax revenue unavailable for appropriation	189,131		18,469	
Reserved for budget stabilization	56,681			
Unreserved-undesignated (deficit)	272,060	74,233		45,960
Total equity and other credits	627,722	99,269	167,760	61,785
Total liabilities, equity and other credits	**$2,809,170**	**$111,287**	**$338,818**	**$61,785**

The notes to the general-purpose 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 Assets**	**General Long-Term Obligations**	**Total (Memorandum Only)**
	$244				$24,095
$14,855					366,468
21,452				$308,698	337,605
9,890				29,285	96,491
	9,949				9,949
7,598					1,930,399
		$4,650			4,650
					1,488
		52,243			52,243
		315			315
				810,000	810,000
				6,983	6,983
53,795	10,193	57,208		1,154,966	3,640,686
			$4,754,689		4,754,689
16,172					16,172
(28,937)	3,972				(24,965)
					131,112
					13,115
					7,234
					148,541
					207,600
					56,681
		5,109			397,362
(12,765)	3,972	5,109	4,754,689		5,707,541
$41,030	**$14,165**	**$62,317**	**$4,754,689**	**$1,154,966**	**$9,348,227**

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	Governmental Fund Types	
	General	**Special Revenue**
Revenues:		
From local sources:		
Taxes	$1,718,432	
Earnings on investments	60,343	$9
Other local revenues	64,014	214,748
Intergovernmental - State	2,453,113	25,431
Intergovernmental - Federal		111,027
Total revenues	4,295,902	351,215
Expenditures:		
Current:		
Instruction:		
Regular	2,186,069	24,798
Special	257,045	67,901
Vocational	55,538	
Other		2,567
Support services:		
Pupil	237,098	25,806
Instructional staff	61,034	5,430
Board of education	8,739	
Administration	308,242	1,909
Fiscal	158,858	458
Operations and maintenance	337,535	940
Pupil transportation	201,375	7,460
Community services	5,708	2,044
Extracurricular activities	144,008	193,039
Facilities acquisition and construction	56,203	
Debt service:		
Principal retirement		
Interest and fiscal charges		
Total expenditures	4,017,452	332,352
Excess (deficiency) of revenues over (under) expenditures	278,450	18,863
Other financing sources (uses):		
Operating transfers in		100
Operating transfers out	(100)	
Total other financing sources (uses)	(100)	100
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	278,350	18,963
Fund balances, July 1	352,306	80,306
Decrease in reserve for inventory	(2,934)	
Fund balances, June 30	**$627,722**	**$99,269**

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

Governmental Fund Types		Fiduciary Fund Type	
Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
$184,212			$1,902,644
		$104	60,456
		3,065	281,827
18,264	$89,432		2,586,240
			111,027
202,476	89,432	3,169	4,942,194
			2,210,867
			324,946
			55,538
			2,567
			262,904
	43,406		109,870
			8,739
			310,151
3,850			163,166
			338,475
			208,835
		25	7,777
		4,000	341,047
			56,203
98,520			98,520
57,561			57,561
159,931	43,406	4,025	4,557,166
42,545	46,026	(856)	385,028
			100
			(100)
42,545	46,026	(856)	385,028
125,215	15,759	5,965	579,551
			(2,934)
$167,760	**$61,785**	**$5,109**	**$961,645**

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	General		
	Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
From local sources:			
Taxes	$1,867,739	$1,852,707	($15,032)
Earnings on investments	50,000	60,343	10,343
Other local revenues	60,000	63,113	3,113
Intergovernmental - State	2,419,998	2,453,113	33,115
Intergovernmental - Federal			
Total revenues	4,397,737	4,429,276	31,539
Expenditures:			
Current:			
Instruction:			
Regular	2,222,981	2,209,377	13,604
Special	278,115	257,293	20,822
Vocational	60,501	57,987	2,514
Other			
Support services:			
Pupil	249,264	236,718	12,546
Instructional staff	67,256	61,112	6,144
Board of Education	11,609	8,783	2,826
Administration	330,559	312,977	17,582
Fiscal	176,183	161,763	14,420
Operations and maintenance	403,010	395,173	7,837
Pupil transportation	228,250	227,914	336
Community services	5,740	5,740	
Extracurricular activities	149,839	145,228	4,611
Facilities acquisition and construction	66,261	56,203	10,058
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	4,249,568	4,136,268	113,300
Excess (deficiency) of revenues over (under) expenditures	148,169	293,008	144,839
Other financing sources (uses):			
Refund of prior year's expenditures	31,000	247	(30,753)
Operating transfers in	42,500	95,498	52,998
Operating transfers (out)	(116,200)	(105,294)	10,906
Total other financing sources (uses)	(42,700)	(9,549)	33,151
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	105,469	283,459	177,990
Fund balances, July 1	296,963	296,963	
Prior year encumbrances appropriated	144,985	144,985	
Fund balances, June 30	**$547,417**	**$725,407**	**$177,990**

Special Revenue			Debt Service		
Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**	**Budget Revised**	**Actual**	**Variance: Favorable (Unfavorable)**
			$100,905	$166,823	$65,918
$217,226	$217,376	$150			
30,431	30,431		18,264	18,264	
145,276	145,276				
392,933	393,083	150	119,169	185,087	65,918
24,799	24,799				
66,478	66,478				
2,868	2,868				
24,921	24,921				
1,104	1,104				
965	965				
			3,850	3,850	
940	940				
6,814	6,814				
2,044	2,044				
222,069	222,069				
			150,520	150,520	
			60,311	58,311	2,000
353,002	353,002		214,681	212,681	2,000
39,931	40,081	150	(95,512)	(27,594)	67,918
100	100		52,000	52,000	
(42,304)	(42,304)				
(42,204)	(42,204)		52,000	52,000	
(2,273)	(2,123)	150	(43,512)	24,406	67,918
60,326	60,326		123,385	123,385	
23,297	23,297		750	750	
$81,350	**$81,500**	**$150**	**$80,623**	**$148,541**	**$67,918**

(Continued)

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	Capital Projects		
	Budget Revised	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
From local sources:			
Taxes			
Earnings on investments			
Other local revenues			
Intergovernmental - State	$89,432	$89,432	
Intergovernmental - Federal			
Total revenues	89,432	89,432	
Expenditures:			
Current:			
Instruction:			
Regular			
Special			
Vocational			
Other			
Support services:			
Pupil			
Instructional staff	59,231	59,231	
Board of Education			
Administration			
Fiscal			
Operations and maintenance			
Pupil transportation			
Community services			
Extracurricular activities			
Facilities acquisition and construction			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	59,231	59,231	
Excess (deficiency) of revenues over (under) expenditures	30,201	30,201	
Other financing sources (uses):			
Refund of prior year's expenditures			
Operating transfers in			
Operating transfers (out)			
Total other financing sources (uses)			
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	30,201	30,201	
Fund balances, July 1	30	30	
Prior year encumbrances appropriated	15,729	15,729	
Fund balances, June 30	**$45,960**	**$45,960**	

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

Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)
$1,968,644	$2,019,530	$50,886
50,000	60,343	10,343
277,226	280,489	3,263
2,558,125	2,591,240	33,115
145,276	145,276	
4,999,271	5,096,878	97,607
2,247,780	2,234,176	13,604
344,593	323,771	20,822
60,501	57,987	2,514
2,868	2,868	
274,185	261,639	12,546
127,591	121,447	6,144
11,609	8,783	2,826
331,524	313,942	17,582
180,033	165,613	14,420
403,950	396,113	7,837
235,064	234,728	336
7,784	7,784	
371,908	367,297	4,611
66,261	56,203	10,058
150,520	150,520	
60,311	58,311	2,000
4,876,482	4,761,182	115,300
122,789	335,696	212,907
31,000	247	(30,753)
94,600	147,598	52,998
(158,504)	(147,598)	10,906
(32,904)	247	33,151
89,885	335,943	246,058
480,704	480,704	
184,761	184,761	
$755,350	**$1,001,408**	**$246,058**

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	Proprietary Fund Types		
	Enterprise	**Internal Service**	**Total (Memorandum Only)**
Operating revenues:			
Tuition and fees	$4,485		$4,485
Sales/charges for services	166,397	$46,221	212,618
Total operating revenues	170,882	46,221	217,103
Operating expenses:			
Personal services	119,691		119,691
Contract services	1,156		1,156
Materials and supplies	144,546		144,546
Depreciation	1,434		1,434
Claims		45,373	45,373
Other operating expense	697		697
Total operating expenses	267,524	45,373	312,897
Operating income (loss)	(96,642)	848	(95,794)
Nonoperating revenues:			
Operating grants	48,735		48,735
Investment earnings	470		470
Federal commodities	41,315		41,315
Total nonoperating revenues	90,520		90,520
Net income (loss)	(6,122)	848	(5,274)
Retained earnings (accumulated deficit), July 1	(22,815)	3,124	(19,691)
Retained earnings (accumulated deficit), June 30	**($28,937)**	**$3,972**	**($24,965)**

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

HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT
SENECA COUNTY

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

	Proprietary Fund Types		
	Enterprise	**Internal Service**	**Total (Memorandum Only)**
Cash flows from operating activities:			
Cash received from tuition and fees	$4,485		$4,485
Cash received from sales/service charges	166,949	$50,078	217,027
Cash payments for personal services	(117,484)		(117,484)
Cash payments for contract services	(1,156)		(1,156)
Cash payments for materials and supplies	(101,384)		(101,384)
Cash payments for claims expenses		(43,535)	(43,535)
Cash payments for other expenses	(876)		(876)
Net cash provided by (used in) operating activities	(49,466)	6,543	(42,923)
Cash flows from noncapital financing activities:			
Cash received from operating grants	48,735		48,735
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(1,136)		(1,136)
Cash flows from investing activities:			
Interest received	470		470
Net increase (decrease) in cash and cash equivalents	(1,397)	6,543	5,146
Cash and cash equivalents at beginning of year	21,440	7,610	29,050
Cash and cash equivalents at end of year	**$20,043**	**$14,153**	**$34,196**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	($96,642)	$848	($95,794)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,434		1,434
Federal donated commodities	41,315		41,315
Changes in assets and liabilities:			
Decrease in materials and supplies inventory	3,430		3,430
Decrease in accounts receivable	552	3,857	4,409
Increase (decrease) in accounts payable	(221)	244	23
Decrease in accrued wages and benefits	(61)		(61)
Increase in compensated absences payable	4,100		4,100
Decrease in pension obligation payable	(1,832)		(1,832)
Increase in claims payable		1,594	1,594
Decrease in deferred revenue	(1,541)		(1,541)
Net cash provided by (used in) operating activities	**($49,466)**	**$6,543**	**($42,923)**

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

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1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1937. The District serves an area of approximately fifty square miles and is located in Seneca County. The District is the 522nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 34 classified employees and 54 certified teaching personnel who provide services to 912 students and other community members. The District currently operates one facility which houses the elementary, middle, and high schools.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

JOINTLY GOVERNED ORGANIZATIONS

Vanguard-Sentinel Career Center

The Vanguard-Sentinel Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education for students. The Career Center is operated under the direction of a Board consisting of two representatives from Fremont City School District and one representative from the other thirteen participating school districts' elected boards. The

Career Center possess its own budgeting and taxing authority. Financial information can be obtained from the Vanguard-Sentinel Career Center, Jay Valasek, who serves as treasurer, at 1306 Cedar Street, Fremont, Ohio 43420.

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty-one public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. The District paid $32,733 to NOECA for services in fiscal year1999. Financial information can be obtained from Betty Schwiefert, who serves as controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under § 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

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

The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of the State of Ohio.

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

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

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

PROPRIETARY FUNDS

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

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

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

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust and agency funds. Expendable trust funds are accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are presented on a budget basis, with note disclosure regarding items which, in other fund types, would be subject to accrual. At June 30, 1999, there were no accruals for agency funds which, in other fund types, would be recognized in the combined balance sheet.

ACCOUNT GROUPS

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

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

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

C. Measurement Focus/Basis of Accounting

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

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

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end.

Revenues accrued at the end of the year include taxes (to the extent they are intended to finance the current fiscal year), interest, intergovernmental grants (to the extent they are intended to finance the current fiscal year) and accounts (student fees and tuition). Current property taxes measurable as of June 30, 1999, and which are intended to finance fiscal 2000 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

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

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

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

D. Budgets

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

The Professional Development, Eisenhower, Title VI-B, Drug Free, and Preschool special revenue funds are flow through grants in which the North Central County Educational Service Center is the primary recipient. Budgetary information for these funds is not included within the District's reporting entity for which the "appropriated budget" is adopted.

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

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

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

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as

certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 1999. The budget figures which appear in the statements of budgetary comparisons represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.

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

   Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 17 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 14 discloses encumbrances outstanding for the enterprise funds at fiscal year end.

E. Cash and Investments

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

During fiscal year 1999, investments were limited to investments in the State Asset Treasury Reserve of Ohio (STAR Ohio), repurchase agreements and a nonnegotiable certificate of deposit. Except for nonparticipating investment contracts, investments are reported at fair market value which is based on quoted market prices. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 1999 amounted to $60,343, which includes $19,135 assigned from other District funds.

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

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

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds consist of donated food, purchased food, food service paper and janitorial supplies and are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. *General Fixed Assets Account Group*

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than five hundred dollars. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group. Books, records, movies and other learning aids kept at the District library are also included for reporting purposes.

2. *Proprietary Funds*

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

Asset	Life (Years)
Furniture, fixtures and equipment	5-20

H. Intergovernmental Revenues

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

Entitlements

General Fund
State Foundation Program
State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds
Education Management Information Systems
Title VI-B
Local Professional Development
Title I
Title VI
Eisenhower Grant
Textbook and Instructional Materials
GOALS 2000
Drug Free Schools Grant

Capital Projects Funds
Technology Equity
Power Up Program

Proprietary Funds
Food Distribution Program

Reimbursable Grants

General Fund
Driver Education Reimbursement
Vocational Education Travel/Salary

Proprietary Funds
National School Lunch Program

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

I. 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.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for sick leave benefits are accrued 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 all employees after ten years of current service with the District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants, or contributions from developers, customers, or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

K. Long-Term Obligations

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

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

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

L. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, supplies inventory, prepayments, tax advance unavailable for appropriation, and budget stabilization. The reserve for property tax advance unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

M. Interfund Transactions

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

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

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

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

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

An analysis of interfund transactions is presented in Note 5.

N. 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 the State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. A fund balance reserve has also been established. See Note 19 for detail of statutory reserves.

O. Prepayments

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

P. Estimates

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

Q. Total Columns on the General-purpose Financial Statements

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

3. DEFICIT FUND BALANCE/RETAINED EARNINGS

Fund balance/retained earnings at June 30, 1999 included the following individual fund deficits:

	Deficit Balance
Special Revenue Funds	
Title VI	$940
Enterprise Funds	
Food Service	34,105

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

The deficit balance in the Title VI special revenue fund is caused by accruing wage and benefit obligations in accordance with GAAP. This deficit will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

The deficit retained earnings in the Food Service enterprise fund is a result of accruing wage, benefit, retirement obligations and compensated absences in accordance with GAAP. This deficit will be eliminated by user charges and intergovernmental revenues not recognized at June 30.

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash with Fiscal Agent: The District had $2,366 in cash held by the North Central County Educational Service Center which is included on the balance sheet as part of "Cash with Fiscal Agent". The money is held in a pooled amount which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement No. 3.

Cash in Segregated Accounts: The District had $1,049 in cash held by the Fifth Third Bank for the Gary Haugh Trust which is included on the balance sheet as "Cash in Segregated Accounts." This money is included with District deposits.

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits, including nonnegotiable certificates of deposit, was $138,948 and the bank balances, including nonnegotiable certificates of deposit, was $201,454. Of the bank balance:

1. $101,454 was covered by federal deposit insurance; and

2. $100,000 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	Category 3	Reported Amount	Fair Value
Repurchase agreement	$4,515	$4,515	$4,515
Investment in STAR Ohio		1,113,951	1,113,951
Total Investments		$1,118,466	$1,118,466

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	$1,259,780	
Investments of the cash management pool:		
Repurchase Agreement	(4,515)	$4,515
Investment in STAR Ohio	(1,113,951)	1,113,951
Cash with Fiscal Agent	(2,366)	
GASB Statement No. 3	$138,948	$1,118,466

5. INTERFUND TRANSACTIONS

A. The following is a summarized breakdown of the District's interfund loans receivable and payable at June 30, 1999:

	Interfund Loan Receivable	Interfund Loan Payable
General Fund	$4,650	
Agency Fund		
Student Managed Activities		$4,650
Total	$4,650	$4,650

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

	Transfers in	Transfers Out
General Fund		$100
Special Revenue Fund		
Title I	$100	
Total	$100	$100

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year.

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 1998 taxes were collected was $65,315,410. Agricultural/residential and public utility/minerals real estate represented 65.04% or $42,474,650 of this total; Commercial & industrial real estate represented 12.39% or $8,096,510 of this total, public utility tangible represented 11.09% or $7,246,310 of this total and general tangible property represented 11.48% or $7,497,940 of this total. The voted general tax rate at the fiscal year ended June 30, 1999 was $40.20 per $1,000.00 of assessed valuation for operations and $2.80 per $1,000.00 of assessed valuation for debt service.

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of $207,600 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 1999, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

7. RECEIVABLES

Receivables at June 30, 1999, consisted of taxes, accounts (billings for user charged services and student fees), interfund loans, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been recorded as “Due From Other Governments” on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds.

A summary of the principal items of receivables follows:

	Amounts
General Fund	
Taxes - current and delinquent	$1,940,874
Debt Service Fund	
Taxes - current and delinquent	$189,527

8. FIXED ASSETS

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

	Balance July 1, 1998	Increase	Balance June 30, 1999
Land/ improvements	$15,515		$15,515
Buildings/improvements	3,382,045		3,382,045
Furniture/equipment	743,642	$57,881	801,523
Vehicles	555,606		555,606
Total	$4,696,808	$57,881	$4,754,689

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

	Balance July 1, 1998
Furniture and Equipment	$34,480
Less: Accumulated Depreciation	(26,608)
Total	$7,872

9. CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended June 30, 1999 are as follows:

	Food Service
Contributed Capital, July 1, 1998	$12,932
Current Contribution	3,240
Contributed Capital, June 30, 1999	$16,172

10. LONG-TERM OBLIGATIONS

A. The District had the following general long-term debt outstanding at June 30, 1999:

FY 1987 School Building Addition Bonds

On July 1, 1986, the District issued $1,800,000 in voted general obligation bonds for constructing a building addition. The bonds were issued under the authority of Ohio Revised Code Section 133.09 for a twenty-two year period, with final maturity in fiscal year 2009. The bonds are being retired through the debt service fund.

FY 1995 Energy Conservation Loan

On August 3, 1994, the District obtained a loan, in the amount of $63,095, from Bank One to provide energy conservation measures for the District. The loan was issued under the authority of Ohio Revised Code Section 133.042 for a five year period, with final maturity in fiscal year 2000. The loan is being retired through the debt service fund.

The following is a description of the District's general obligation debt outstanding as of June 30, 1999:

	Interest Rates	Outstanding July 1, 1998	Retired in 1999	Outstanding June 30, 1999
G.O. Bonds Payable	8.25%	$895,000	($85,000)	$810,000
Energy Conservation Loan	4.80%	20,503	(13,520)	6,983
Total		$915,503	($98,520)	$816,983

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

Fiscal Year Ending	Principal on Bonds/Loans	Interest on Bonds/Loans	Total
2000	$91,983	$63,487	$155,470
2001	85,000	56,306	141,306
2002	80,000	49,500	129,500
2003	80,000	42,900	122,900
2004	80,000	36,300	116,300
2005-2009	400,000	82,500	482,500
Total	$816,983	$330,993	$1,147,976

C. During the year ended June 30, 1999, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. Compensated absences and pension obligations will be paid from the fund in which the employee was paid.

	Balance 7/1/98	Increase	Decrease	Balance 6/3099
General Obligation Bonds Payable	$895,000		($85,000)	$810,000
Energy Conservation Loan Payable	20,503		(13,520)	6,983
Compensated Absences	348,182		(39,484)	308,698
Pension Obligation Payable	31,682	$29,285	(31,682)	29,285
Total	$1,295,367	$29,285	($169,686)	$1,154,966

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 1999 are a voted debt margin of $5,170,229 (including available funds of $101,842 and an unvoted debt margin of $65,315.

11. NOTE PAYABLE

A summary of the note transaction for the year ended June 30, 1999 follows:

General Fund	Outstanding at 7/1/98	Reductions	Outstanding at 6/30/99
Tax anticipation note - 5.50%	$52,000	($52,000)	

Tax anticipation notes are backed by the full faith and credit of the District. Payments of principal and interest relating to this liability were recorded as expenditures in the general fund. The note was repaid in fiscal year 1999 with tax revenues.

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty days for school personnel. Upon retirement, payment is made for 31.82 percent of their accrued, but unused sick leave credit to a maximum of seventy days.

B. Insurance Benefits

The District offers life insurance and accidental death and dismemberment insurance to all employees through Community National Assurance Company. The District offers employee medical/surgical benefits through Medical Mutual of Ohio. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. The District is self-insured for dental and vision benefits.

13. RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the District contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

Coverage	Limits of Coverage	Deductible
Buildings and Contents	$13,959,184	$500
Boiler and Machinery		$1,000
Inland Marine:		
Athletic Equipment	$170,188	$1,000
Musical Instruments, etc.	$262,140	$100
Camera, Films and Equipment	$17,500	$50
Automobile Liability		
	$1,000,000	$0
Uninsured Motorist	$1,000,000	$250
Medical Payments-Per person	$5,000	$0

Coverages provided by Nationwide Insurance are as follows:

Coverage	Limits of Coverage	Deductible
General School District Liability:		
Per Occurrence	$1,000,000	$0
Annual Aggregate	$5,000,000	$0

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

B. Worker's Compensation

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Group Dental and Vision Insurance

The District was self insured for dental and vision benefits to employees. The District established a Self Insurance internal service fund to account for and finance the dental and vision benefits program. Under the program, the Self Insurance fund provides coverage up to a maximum of $1,000 per individual, per year for dental insurance and various limits of coverage per individual, per year for vision insurance based on the service provided. The District reimburses the individuals for dental and vision services received up to their maximum limits.

The claims liability of $9,949 reported in the internal service fund at June 30, 1999, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning of Year	Claims	Payments	End of Year
1999	$8,355	$45,129	($43,535)	$9,949
1998	5,371	42,831	(39,847)	8,355
1997	0	40,114	(34,743)	5,371

14. SEGMENT INFORMATION - ENTERPRISE FUNDS

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

	Food Service	Uniform School Supplies	Total
Operating revenue	$166,397	$4,485	$170,882
Operating expenses before depreciation	256,664	9,426	266,090
Depreciation	1,434		1,434
Operating loss	(91,701)	(4,941)	(96,642)
Operating grants	48,735		48,735
Federal donated commodities	41,315		41,315
Net income (loss)	(1,181)	(4,941)	(6,122)
Net working capital	(6,976)	7,791	815
Total assets	33,239	7,791	41,030
Total liabilities	53,795		53,795
Contributed capital	16,172		16,172
Total equity	(20,556)	7,791	(12,765)
Encumbrances at June 30, 1999	2,696		2,696

15. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $68,649, $63,111, and $53,182, respectively; 46 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. $37,272, representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $295,214, $274,750, and $229,545, respectively; 84 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. $47,012, 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 SERS or the STRS have an option to choose Social Security or the SERS/STRS. The Board's liability is 6.2 percent of wages paid.

16. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled $168,694 during fiscal 1999.

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

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

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

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were $111.9 million and the target level was $139.9 million. At June 30, 1998 (the latest information available) SERS had net assets available for payment of health care benefits of $160.3 million and approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled $37,583 during the 1999 fiscal year.

17. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

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

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	$283,459	($2,123)	$24,406	$30,201
Net adjustments for:				
revenue accruals	(133,656)	(38,803)	17,389	
expenditure accruals	14,591	(7,302)	52,000	
other financing sources (uses)	9,449	42,304	(52,000)	
fund reclassification	(618)	(3,065)		
Encumbrances (budget basis)	105,125	27,952	750	15,825
GAAP basis	$278,350	$18,963	$42,545	$46,026

18. CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 2000, the District received $2,000,775 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County 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 appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The court concluded, "…the mandate of the (Ohio) Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "…major areas warrant further attention, study, and development by the General Assembly…," including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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.

19. STATUTORY RESERVES

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside cash balance as of June 30, 1998			$23,487
Current year set-aside requirement	$66,388	$66,388	33,194
Current year offsets	(12,364)		
Qualifying disbursements	(79,590)	(94,770)	
Total	($25,566)	($28,382)	$56,681
Cash balance carried forward to FY 2000			$56,681

A schedule of the restricted assets at June 30, 1999 follows:

Amount restricted for budget stabilization	$56,681
Total restricted assets	$56,681

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

Hopewell-Loudon Local School District
Seneca County
290 North County Road 7
P.O. Box 400
Bascom, Ohio 44809-0400

To the Board of Education:

We have audited the financial statements of Hopewell-Loudon Local School District as of and for the year ended June 30, 1999, and have issued our report thereon dated January 22, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 22, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 22, 2001.

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

Jim Petro
Auditor of State

January 22, 2001

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HOPEWELL-LOUDON LOCAL SCHOOL DISTRICT

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 20, 2001