GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Gorham-Fayette Local School District
Fulton County
311 North Eagle Street
P.O. Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

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

As discussed in Note 3 to the general-purpose financial statements, during the year ended June 30, 1999, the District changed its method of accounting for the deferred compensation program.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 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

November 28, 2000

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GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
FOR THE YEAR ENDED 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	$967,871	$57,122	$91,650	$283,628
Cash and Cash Equivalents:				
With Fiscal Agents		2,160		
Receivables:				
Taxes	873,208		162,628	
Intergovernmental	29,991	2,314		
Interfund Receivable	50,000			
Income Taxes	115,446			
Materials and Supplies Inventory	8,170			
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	11,120			
Fixed Assets				
Accumulated Depreciation				
Other Debits:				
Amount in Debt Service Fund for Retirement of Provided from General Government Resources				
Total Assets and Other Debits	**$2,055,806**	**$61,596**	**$254,278**	**$283,628**
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	$5,941			
Contracts Payable				$173,126
Accrued Wages and Benefits	255,160	$5,371		
Compensated Absences Payable	17,573			
Interfund Payable				50,000
Intergovernmental Payable	46,037	740		
Deferred Revenue	818,237		$151,636	
Due to Students				
General Obligation Bonds Payable				
Total Liabilities	1,142,948	6,111	151,636	223,126
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved:				
Reserved for Encumbrances	68,183	13,178		98,348
Reserved for Inventory	8,170			
Reserved for Principal Endowments				
Reserved for Property Taxes	54,971		10,992	
Reserved for Budget Stabilization	11,120			
Reserved for Debt Service Principal			91,650	
Unreserved:				
Unreserved, Undesignated	770,414	42,307		(37,846)
Total Fund Equity and Other Credits	912,858	55,485	102,642	60,502
Total Liabilities, Fund Equity and Other Credits	**$2,055,806**	**$61,596**	**$254,278**	**$283,628**

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

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		
Enterprise	Trust and Agency	General Fixed Asset	General Long-Term Debt	Totals (Memorandum Only)
$683	$38,155			$1,439,109
				2,160
				1,035,836
4,598				36,903
				50,000
				115,446
4,173				12,343
				11,120
48,382		$5,969,836		6,018,218
(32,058)				(32,058)
			$91,650	91,650
			2,617,720	2,617,720
$25,778	**$38,155**	**$5,969,836**	**$2,709,370**	**11,398,447**
				$5,941
				173,126
$4,215				264,746
3,826			$268,228	289,627
				50,000
2,015			26,887	75,679
1,772				971,645
	$23,133			23,133
			2,414,255	2,414,255
11,828	23,133		2,709,370	4,268,152
		$5,969,836		5,969,836
13,950				13,950
				179,709
				8,170
	15,000			15,000
				65,963
				11,120
				91,650
	22			774,897
13,950	15,022	5,969,836		7,130,295
$25,778	**$38,155**	**$5,969,836**	**$2,709,370**	**$11,398,447**

GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

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

	Governmental Fund Types	
	General	**Special Revenue**
Revenues:		
Intergovernmental	$1,552,974	$234,802
Interest	89,901	
Tuition and Fees	92,697	
Rent	571	
Extracurricular Activities		63,904
Gifts and Donations	3,505	
Income Tax	317,423	
Property and Other Local Taxes	854,580	
Miscellaneous	202,871	
Total Revenues	3,114,522	298,706
Expenditures:		
Current:		
Instruction:		
Regular	1,522,512	28,228
Special	228,319	59,179
Vocational	75,465	
Other	27,429	
Support Services:		
Pupils	116,148	22,841
Instructional Staff	110,465	13,495
Board of Education	9,801	
Administration	331,433	329
Fiscal	94,935	
Operation and Maintenance of Plant	286,493	539
Pupil Transportation	127,403	
Central	10,282	6,391
Non-Instructional Services		138,485
Extracurricular Activities	81,683	36,944
Capital Outlay	15,331	
Debt Service:		
Debt Service - Principal		
Debt Service - Interest		
Total Expenditures	3,037,699	306,431
Excess of Revenues Over (Under) Expenditures	76,823	(7,725)
Other Financing Sources and Uses:		
Operating Transfers In		1,500
Proceeds from Sale of Fixed Assets	300	
Refund of Prior Year Expenditures	31,990	
Other Financing Sources	1,111	
Operating Transfers Out	(7,730)	
Refund of Prior Year Receipts	(8,601)	(52)
Total Other Financing Sources (Uses)	17,070	1,448
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	93,893	(6,277)
Fund Balance at Beginning of Year	818,965	61,762
Fund Balance at End of Year	**$912,858**	**$55,485**

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

Governmental Fund Types		
Debt Service	Capital Projects	Totals (Memorandum Only)
$17,368	$52,199	$1,857,343
	15,180	105,081
		92,697
		571
		63,904
18,000		21,505
		317,423
155,667		1,010,247
8,601		211,472
199,636	67,379	3,680,243
		1,550,740
		287,498
		75,465
		27,429
		138,989
	56,714	180,674
		9,801
		331,762
3,444		98,379
		287,032
		127,403
		16,673
		138,485
		118,627
	1,037,110	1,052,441
75,000		75,000
143,959		143,959
222,403	1,093,824	4,660,357
(22,767)	(1,026,445)	(980,114)
		1,500
		300
3,289		35,279
		1,111
		(7,730)
		(8,653)
3,289		21,807
(19,478)	(1,026,445)	(958,307)
122,120	1,086,947	2,089,794
$102,642	**$60,502**	**$1,131,487**

GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

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

	General			Special Revenue		
	Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Intergovernmental	$1,545,650	$1,554,847	$9,197	$195,954	$195,954	
Interest	80,000	89,901	9,901			
Tuition and Fees	58,392	64,900	6,508			
Rent	500	571	71			
Extracurricular Activities				63,700	63,904	$204
Gifts and Donations	3,000	3,505	505			
Income Tax	320,000	317,423	(2,577)			
Property and Other Local Taxes	844,000	849,158	5,158			
Miscellaneous	196,963	202,354	5,391			
Total Revenues	3,048,505	3,082,659	34,154	259,654	259,858	204
Expenditures:						
Current:						
Instruction:						
Regular	1,571,331	1,511,000	60,331	40,925	30,646	10,279
Special	231,485	229,921	1,564	47,774	47,773	1
Vocational	93,428	75,014	18,414			
Other	34,944	28,288	6,656			
Support Services:						
Pupils	125,431	115,678	9,753	7,638	6,686	952
Instructional Staff	202,512	113,687	88,825	2,354	2,354	
Board of Education	18,599	12,926	5,673			
Administration	342,961	328,529	14,432			
Fiscal	108,642	93,654	14,988			
Operation and Maintenance of Plant	326,209	295,736	30,473			
Pupil Transportation	205,441	154,065	51,376			
Central	13,386	10,730	2,656	6,770	6,768	2
Non-Instructional Services	2,750		2,750	145,305	145,305	
Extracurricular Activities	85,735	81,726	4,009	42,220	36,944	5,276
Capital Outlay	82,615	21,831	60,784			
Debt Service:						
Debt Service - Principal						
Debt Service - Interest						
Total Expenditures	3,445,469	3,072,785	372,684	292,986	276,476	16,510
Excess of Revenues Over (Under) Expenditure	(396,964)	9,874	406,838	(33,332)	(16,618)	16,714
Other Financing Sources and Uses						
Operating Transfers In				1,500	1,500	
Proceeds from Sale of Fixed Assets		300	300			
Refund of Prior Year Expenditures	31,100	31,529	429			
Advances In						
Other Financing Sources	2,200	1,111	(1,089)			
Operating Transfers Out	(7,799)	(7,730)	69			
Refund of Prior Year Receipts	(8,601)	(8,601)		(52)	(52)	
Advances Out	(50,000)	(50,000)				
Total Other Financing Sources (Uses)	(33,100)	(33,391)	(291)	1,448	1,448	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(430,064)	(23,517)	406,547	(31,884)	(15,170)	16,714
Fund Balances at Beginning of Year	889,303	889,303		43,602	43,602	
Prior Year Encumbrances Appropriated	42,619	42,619		15,509	15,509	
Fund Balance at end of Year	**$501,858**	**$908,405**	**$406,547**	**$27,227**	**$43,941**	**$16,714**

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

Debt Service			Capital Projects			Totals (Memorandum Only)		
Budget	**Actual**	**Variance: Favorable (Unfavorable)**	**Budget**	**Actual**	**Variance: Favorable (Unfavorable)**	**Budget**	**Actual**	**Variance: Favorable (Unfavorable)**
$16,000	$17,368	$1,368	$498,199	$493,957	($4,242)	$2,255,803	$2,262,126	$6,323
			15,000	15,180	180	95,000	105,081	10,081
						58,392	64,900	6,508
						500	571	71
						63,700	63,904	204
18,000	18,000					21,000	21,505	505
						320,000	317,423	(2,577)
156,120	156,120					1,000,120	1,005,278	5,158
6,899	8,601	1,702				203,862	210,955	7,093
197,019	200,089	3,070	513,199	509,137	(4,062)	4,018,377	4,051,743	33,366
						1,612,256	1,541,646	70,610
						279,259	277,694	1,565
						93,428	75,014	18,414
						34,944	28,288	6,656
						133,069	122,364	10,705
			58,525	57,758	767	263,391	173,799	89,592
						18,599	12,926	5,673
						342,961	328,529	14,432
5,000	3,444	1,556				113,642	97,098	16,544
						326,209	295,736	30,473
						205,441	154,065	51,376
						20,156	17,498	2,658
						148,055	145,305	2,750
						127,955	118,670	9,285
			1,616,747	1,569,718	47,029	1,699,362	1,591,549	107,813
75,000	75,000					75,000	75,000	
143,969	143,959	10				143,969	143,959	10
223,969	222,403	1,566	1,675,272	1,627,476	47,796	5,637,696	5,199,140	438,556
(26,950)	(22,314)	4,636	(1,162,073)	(1,118,339)	43,734	(1,619,319)	(1,147,397)	471,922
							300	300
3,289	3,289					34,389	34,818	429
			45,000	50,000		45,000	50,000	5,000
						2,200	1,111	(1,089)
						(7,799)	(7,730)	69
						(8,653)	(8,653)	
						(50,000)	(50,000)	
3,289	3,289		45,000	50,000	5,000	16,637	21,346	4,709
(23,661)	(19,025)	4,636	(1,117,073)	(1,068,339)	48,734	(1,602,682)	(1,126,051)	476,631
110,675	110,675		(338,414)	(338,414)		705,166	705,166	
			1,480,738	1,480,738		1,538,866	1,538,866	
$87,014	**$91,650**	**$4,636**	**$25,251**	**$73,985**	**$48,734**	**641,350**	**1,117,981**	**$476,631**

GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

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

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Totals (Memorandum Only)
Operating Revenues:			
Sales	$75,251		$75,251
Interest		$760	760
Total Operating Revenues	75,251	760	76,011
Operating Expenses:			
Salaries	44,406		44,406
Fringe Benefits	11,757		11,757
Purchased Services	3,231		3,231
Materials and Supplies	65,825		65,825
Depreciation	1,193		1,193
Other	98	1,000	1,098
Total Operating Expenses	126,510	1,000	127,510
Operating Loss	(51,259)	(240)	(51,499)
Non-Operating Revenues:			
Federal Donated Commodities	13,095		13,095
Interest	9		9
Federal and State Subsidies	28,451		28,451
Total Non-Operating Revenues	41,555		41,555
Loss Before Operating Transfers	(9,704)	(240)	(9,944)
Operating Transfers-In	6,230		6,230
Net Loss	(3,474)	(240)	(3,714)
Retained Earnings/Fund Balance at Beginning of Year	17,424	15,262	32,686
Retained Earnings/Fund Balance at End of Year	**$13,950**	**$15,022**	**$28,972**

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

GORHAM-FAYETTE LOCAL SCHOOL DISTRICT
FULTON COUNTY

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

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Totals (Memorandum) Only)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash Flows from Operating Activities:			
Cash Received from Sales	$75,251		$75,251
Cash Payments to Suppliers for Goods and Service	(51,534)		(51,534)
Cash Payments for Contract Services	(3,231)		(3,231)
Cash Payments for Employee Services	(36,365)		(36,365)
Cash Payments for Employee Benefits	(15,777)		(15,777)
Other Cash Payments	(98)	($1,000)	(1,098)
Net Cash Used for Operating Activities	(31,754)	(1,000)	(32,754)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Received	23,853		23,853
Operating Transfers In	6,230		6,230
Net Cash Provided by Noncapital Financing Activities	30,083		30,083
Cash Flows from Investing Activities:			
Interest on Investments	9	760	769
Cash Flows from Capital and Related Financing Activities:			
Payments for Capital Acquisitions	(750)		(750)
Net Decrease in Cash and Cash Equivalents	(2,412)	(240)	(2,652)
Cash and Cash Equivalents at Beginning of Year	3,095	15,262	18,357
Cash and Cash Equivalents at End of Year	**$683**	**$15,022**	**$15,705**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:			
Operating Loss	($51,259)	($240)	($51,499)
Adjustments to Reconcile Operating Loss To Net Cash Provided by (Used for) Operating Activities:			
Depreciation	1,193		1,193
Donated Commodities Used During the Year	13,095		13,095
Nonexpendable Trust Fund Interest		(760)	(760)
(Increase) Decrease in Assets:			
Material and Supplies Inventory	1,526		1,526
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	399		399
Intergovernmental Payable	572		572
Deferred Revenue	(330)		(330)
Accrued Wages and Benefits	3,050		3,050
Total Adjustments	19,505	(760)	18,745
Net Cash Provided by (Used for) Operating Activities	**($31,754)**	**($1,000)**	**($32,754)**

RECONCILIATION OF NONEXPENDABLE TRUST FUND CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET:

Total Cash - Trust and Agency : Per: Balance Sheet	$38,155
Less: Cash - Agency Fund	(23,133)
Cash and Cash Equivalents - Nonexpendable Trust Fund	**$15,022**

The Food Service Fund consumed donated commodities with a value of $13,095. The use of these commodities is reflected as an operating expense.

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 AND REPORTING ENTITY

The Gorham-Fayette Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by § 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 residents of the District. The Board oversees the operations of the District's two instructional/support facilities.

The Reporting Entity

The District has implemented the Government Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which the District officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the District's oversight responsibility, which required incorporation into the financial statements.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Normal Memorial Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14, 15, and 16 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The modified accrual basis of accounting is followed for Governmental and Agency Funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income determination. Under this basis of accounting:

1. Only current assets and current liabilities are generally included on their balance sheets.

2. Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

3. Revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the District is 60 days after year end.

    a. Revenue accrued at the end of the year included taxes, interest, student fees and tuition.

b. Property taxes measurable but not available as of June 30, 1999 and delinquent property taxes, whose availability is indeterminate, have been recorded as deferred revenues.

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

The Agency Funds are custodial in nature and do not present results of operations or have measurement focus. These funds are used to account for assets that the government holds for others in an agent capacity.

The Proprietary and Nonexpendable Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

B. Fund Accounting

The District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reporting in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Funds

The following are the funds through which most Board of Education functions are typically financed.

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

<u>Special Revenue Funds</u> - The funds used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to disbursements for specified purposes.

<u>Debt Service Funds</u> - The funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

Capital Projects Funds - The funds 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).

2. Proprietary Funds

The funds used to account for Board activities that are similar to business operations in the private sector. Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

Enterprise Funds - The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Fiduciary Funds

The funds used to account for assets not owned by the Board, but held for a separate entity.

Trust Funds - The funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Nonexpendable Trust Funds.

Agency Funds - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

General Fixed Assets - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

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

C. Budgetary Accounting

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The Title VI-B Flow Thru Grant, Eisenhower Math-Science Grant, and Federal Preschool Grant special revenue funds pass through grants in which the Northwest Ohio 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, and the District does not maintain separate budgetary records.

The specific timetable is as follows:

1. Prior to January 15, the Treasurer submits 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. A public hearing is publicized and conducted to obtain taxpayers' comments. The 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 County Budget Commission for 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. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary, budgetary adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.

6. 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.

The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.

2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust funds for the year ended June 30, 1999 follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	($23,517)	($15,170)	($19,025)	($1,068,339)
Revenue Accruals	31,863	38,848	(453)	(441,758)
Expenditure	(35,497)	(43,134)		324,009
Accruals	50,461			(50,000)
Encumbrances	70,583	13,179		209,643
GAAP Basis	$93,893	($6,277)	($19,478)	($1,026,445)

D. Encumbrances

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. 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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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 a repurchase agreement account, STAR Ohio, a secure asset account and a certificate account. The repurchase agreement account, secure asset account and certificate account are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (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 revenue credited to the general fund during fiscal year 1999 amounted to $89,901.

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.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. Inventory in Governmental Funds consists of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Property, Plant and Equipment

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. The cost 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. Interest incurred during construction of general fixed assets is also not capitalized. Contributed 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 $300. This is based primarily on the uniqueness of these items to a school operation. No depreciation is recognized for assets in General Fixed Assets Account Group.

Public Domain ("infrastructure") general fixed assets consisting of curbs, gutters, sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

2. Proprietary Funds

Property plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight line basis over an estimated useful life of seven to twenty years.

H. Intergovernmental Revenues

In Governmental Funds, entitlements and non-reimbursable grants 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. Grants for Proprietary Fund operations are recognized as revenue when measurable and earned. This District currently participates in various state and federal programs, categorized as follows:

Entitlements

General Fund
State Foundation Program
School Bus Purchase Reimbursement

Non-Reimbursable Grants

Special Revenue Funds
Drug Free Grant
Title I
Title VI
Educational Management Information Systems (EMIS)
Teacher Development
SchoolNet Professional Development
Textbook/Instructional Materials Subsidy
Public School Preschool
Title VI-B
Eisenhower Grant
Preschool Disability Grant
Disadvantaged Pupil Impact Aid

Capital Projects Funds
SchoolNet
School Net Plus
Emergency School Building Repair
Technology Equity

Reimbursable Grants

General Fund
Driver Education Reimbursement
Vocational Education Equipment Fund

Enterprise Fund
National School Lunch Program
Government Donated Commodities

I. Interfund Transactions

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

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded 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.

3. Short-term interfund loans are reflected as interfund receivables and interfund payables.

J. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable too past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement.

Sick leave benefits are accrued as a liability using the vested 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. For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the District 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.

L. Fund Balance Reserves

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, inventories of supplies and materials, endowments, property taxes, budget stabilization and debt service.

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 reserve for endowments signifies the legal restrictions on the use of principal.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. 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 the other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligation Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

O. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type eliminations have not been made in the combining of the data.

3. ACCOUNTABILITY

A. Change in Accounting Principle

In Fiscal year 1999, the District implemented Statement 32 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans*. Recent changes in the Internal Revenue Code require that deferred compensation plan assets be placed in trust for the exclusive benefit of employees and their beneficiaries by no later than January 1, 1999. Statement 32 provides that, upon the transfer of deferred compensation assets to such a trust, the employer is no longer considered the owner of the amounts deferred by employees under the deferred compensation plan. The Ohio Public Employees Deferred Compensation Plan on October 1, 1998 placed assets in trusts to comply with the above requirements, and accordingly, plan assets which totaled $159,349 as of June 30, 1999 have been excluded from the District's financial statements.

B. Deficit Balances

At June 30, 1999, the Title I and Emergency Building Repair Funds had deficit fund balances of $2,799 and $20,001, respectively. These deficits 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. CASH AND CASH EQUIVALENTS

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 pass book accounts.

Protection of 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;

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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and

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

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits

At year end, the carrying amount of the District's deposits was $543,302 and the bank balance was $612,459. Of the bank balance, $128,960 was covered by Federal Depository insurance. $483,499 was secured by pooled collateral that was held in the pledging financial institution’s name. All State statutory requirements for the deposit of money had been followed.

At fiscal year end, the District had $2,160 in cash and cash equivalents held by the Northwest Ohio Educational Service Center, which is included on the balance sheet as “Cash with fiscal agent.” The Educational Service Center holds this flow through grant money for the District along with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

Investments

The District’s investments are required to be categorized to give an indication of the level of risk assumed by the District at 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 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 or agent but not in the district’s name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. During fiscal year 1999, investments were limited to Star Ohio with a carrying amount and fair value as of June 30, 1999 of $746,510, and a repurchase agreement, a Category 3 investment, with a carrying amount and fair value as of June 30, 1999 of $160,417.

The classification of cash and cash equivalents, and investments on the combined financial statements are 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 cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments per GASB Statement No. 3 are as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement 9	$1,450,229	
Investments of the Cash Management Pool:		
Repurchase Agreement	(160,417)	$160,417
State Treasurer's Investment Pool	(746,510)	746,510
GASB Statement 3	$543,302	$906,927

5. PROPERTY TAXES

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January and July of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value.

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

Collection Dates	April and September of the current year
Lien Date	January 1 of the current year
Levy Date	October 1 of the year preceding the collection year

Most public utility tangible personal property currently is assessed at 35 percent of its true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January and July of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The County Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in March and September.

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in May and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 1999. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion which is available to advance as of June 30, 1999.

The assessed values of properties upon which property tax revenues were based are as follows:

	Amount
Agricultural/Residential	$21,069,500
Commercial/Industrial	3,745,970
Public Utility	2,544,350
General	3,321,870
Total valuation	$30,681,690

6. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

Asset Category	Balance at 07/01/98	Additions	Disposals	Balance at 06/30/99
Land and Improvements	$137,813			$137,813
Buildings and Improvements	1,218,598	$397,100		1,615,698
Furniture and Equipment	783,082	106,623	$4,624	885,081
Vehicles	317,068			317,068
Construction in Progress	1,938,114	753,138		2,691,252
Text and Library Books	307,436	15,488		322,924
Totals	$4,702,111	$1,272,349	$4,624	$5,969,836

A summary of changes in the Enterprise Fund fixed assets is as follows:

Asset Category	Balance at 06/30/99
Furniture and Equipment	$48,382
Less: Accumulated Depreciation	(32,058)
Totals	$16,324

7. LONG-TERM OBLIGATIONS

During the year ended June 30, 1999, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at 07/01/98	Additions	Deductions	Balance at 06/30/99
General Obligation Bonds	$2,404,708			$2,404,708
Bank Anticipation Notes	75,000		$75,000	
Capital Appreciation on Bonds		$9,547		9,547
Pension Obligation	25,959	928		26,887
Compensated Absences	277,752		9,524	268,228
Total Long-Term Obligations	$2,783,419	$10,475	$84,524	$2,709,370

Debt outstanding at June 30, 1999 consisted of a separate issue of construction and improvement bonds. The issue includes both current interest bonds, par value of $2,300,000, and capital appreciation bonds, par value of $315,000. These bonds were issued in 1998 and will mature in 2024. Interest rates for the current interest bonds range from 3.85 percent to 5.00 percent. The capital appreciation bonds mature on December 1, 2010, 2011 and 2012, with stated interest rate of 19.5 percent, at a redemption price equal to 100% of the principal, plus accrued interest to redemption date. The annual accretion of interest is compounded semiannually. The accretion of interest on the capital appreciation bonds reported in the General Long-Term Obligations Account Group at June 30, 1999 was $9,547.

Total expenditures for interest for the above debt for the period ended June 30, 1999 was $143,959.

The scheduled payments of principal and interest on debt outstanding at June 30, 1999 are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2000	$65,000	$111,204	$176,204
2001	65,000	108,652	173,652
2002	70,000	105,918	175,918
2003	75,000	102,926	177,926
2004	80,000	99,690	179,690
thereafter	2,059,255	1,491,207	3,550,462
Total	$2,414,255	$2,019,597	$4,433,852

8. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Certain employees are permitted to carry over vacation leave earned in the current year into the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to a certified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 55 days. The amount paid to a classified employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 45 days.

At June 30, 1999, the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Fund and General Long-Term Obligation Account Group was $17,573 and $268,228, respectively. The liability for compensated absences in the proprietary funds at June 30, 1999 were $3,826.

9. RETIREMENT INCENTIVE

The Board of Education shall pay fifty dollars ($50) for each year served in the District to bargaining unit members eligible to retire. In order to receive this payment, individuals must retire in the first year that they meet the member eligibility requirements for retirement as defined by STRS. This program would be combined with the lump sum severance.

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District participates in 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. That report may be obtained by writing to the State Teachers Retirement System, 275 E. 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. Prior to July 1, 1997, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were $243,844, $221,711, and $205,129, respectively; 85 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. $37,476 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 member and beneficiaries. Authority to establish and amend benefits is provided by state statue per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215.

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 the annual covered payroll. For fiscal year 1999, 9.79 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were $54,887, $51,043, and $48,053, respectively; 54 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. $25,296 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.

11. POSTEMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund from which health care benefits are paid. However, for the fiscal year ended June 30. 1998, the board allocated employer contributions equal to 3.5 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was $2,156 million on June 30, 1998. The Health Care Reserve Fund allocation for the year ended June 30, 1999 will be 8 percent of covered payroll.

For the year ended June 30, 1998, net health care costs paid by STRS were $219,224,000. There were 91,999 eligible benefit recipients.

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 the 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. 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 1998, the minimum pay has been established as $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.

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 health care at June 30, 1998 were $111,900,575 and the target level was $139.9 million. At June 30, 1998, the Retirement System's net assets available for payment of health care benefits were $160.3 million. The number of participants currently receiving health care benefits is approximately 50,000.

For the District, the amount to fund health care benefits, including the surcharge, equaled $31,114 during the 1999 fiscal year.

12. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully considered.

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for their share of any claims not processed and paid and any related administrative costs. The District paid $237,953 in premiums during the 1999 fiscal year.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council 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 educational 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. The District paid $609 in premiums during the 1999 fiscal year.

13. ENTERPRISE FUNDS SEGMENT INFORMATION

The District maintains two Enterprise Funds, which provide lunchroom/cafeteria and uniform school supply services. Segment information for the year ended June 30, 1999 was as follows:

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	$72,399	$2,852	$75,251
Depreciation Expense	1,193		1,193
Operating Income (Loss)	(50,194)	(1,065)	(51,259)
Donated Commodities	13,095		13,095
Grants	28,451		28,451
Operating Transfers-In	6,230		6,230
Net Income (Loss)	(2,409)	(1,065)	(3,474)
Net Working Capital	(3,055)	681	(2,374)
Total Assets	25,097	681	25,778
Total Liabilities	11,828		11,828
Total Equity	13,269	681	13,950

14. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, Williams and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to

NWOCA during this fiscal year were $11,369. Financial information can be obtained from Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were $2,500. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; and one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Michele Zeedyk, who serves as treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

15. RELATED ORGANIZATIONS

Normal Memorial Library

The Normal Memorial Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Gorham-Fayette Local School district Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the district for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Normal Memorial Library, Irene Fether, Clerk/Treasurer, at 301 North Eagle Street, Fayette, Ohio 43521.

16. GROUP PURCHASING POOLS

A. NBEC Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams Counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were $237,953. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of $250 to the WCGRP to cover the costs of administering the program.

17. CONTRACTUAL COMMITMENTS

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

Company	Amount Remaining
Beilharz Architects, Inc.	$8,225
Floyd P. Bucher & Son, Inc.	1000
Creighton Electric	21500
Totals	$30,725

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
Set-aside Cash Balance as of June 30, 1998			$11,120	
Current Year Set-aside Requirement	$45,823	$45,823		
Current Year Offsets				
Qualifying Disbursements	(66,221)	(68,264)		
Total	($20,398)	($22,441)	$11,120	
Cash Balance Carried Forward to FY 1999			$11,120	
Amount restricted for Budget Stabilization				$11,120
Total Restricted Assets				$11,120

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. 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 School District. During the fiscal year ended June 30, 1999, the District received $1,445,633 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. 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, 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 assistant 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.

20. INTERFUND TRANSACTIONS

Transfer between funds during the year ended June 30, 1999 were as follows:

	Transfers-In	Transfers-Out
General Fund		$7,730
Special Revenue Funds	$1,500	
Enterprise Funds	6,230	
Total All Funds	$7,730	$7,730

Interfund balances at June 30, 1999 consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	$50,000	
Capital Projects Funds		$50,000
Total All Funds	$50,000	$50,000

21. AGENCY FUNDS

General-Purpose Statement of
Changes in Assets and Liabilities

	Balance at 06/30/98	Change	Balance at 06/30/99
Assets	$21,560	$1,573	$23,133
Liabilities	$21,560	$1,573	$23,133

22. SCHOOL DISTRICT INCOME TAX

In 1991, the voters of the District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 1999, the District recorded income tax revenue of $317,423 in the General Fund, of which $115,446 is recorded as a receivable at June 30, 1999.

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

Gorham-Fayette Local School District
Fulton County
311 North Eagle Street
P.O. Box 309
Fayette, Ohio 43521-0309

To the Board of Education:

We have audited the financial statements of the Gorham-Fayette Local School District, Fulton County, (the District) as of and for the year ended June 30, 1999, and have issued our report thereon dated November 28, 2000, which report noted a change in accounting for the deferred compensation plan. 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 November 28, 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. 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 another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 28, 2000.

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

Jim Petro
Auditor of State

November 28, 2000

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GORHAM-FAYETTE LOCAL SCHOOL DISTRICT

FULTON 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
DECEMBER 19, 2000