

ANNA LOCAL SCHOOL DISTRICT

SHELBY COUNTY

**AUDITED
BASIC FINANCIAL STATEMENTS-MODIFIED CASH BASIS**

**FOR THE YEARS ENDED
JUNE 30, 2006 AND 2005**



Mary Taylor, CPA

Auditor of State

Board of Trustees
Anna Local School District
One McRill Way
Anna, Ohio 45302

We have reviewed the *Independent Auditors' Report* of the Anna Local School District, Shelby County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Anna Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 30, 2007

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ANNA LOCAL SCHOOL DISTRICT
SHELBY COUNTY
 Basic Financial Statements-Modified Cash Basis
 For the Fiscal Years Ended June 30, 2006 and 2005

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We're Ready For Your Future

December 20, 2006

The Board of Education
Anna Local School District
Anna, Ohio 45302

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Anna Local School District, Shelby County, Ohio (the School District), as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide a reasonable basis for our opinions.

Ohio Administrative Code §117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash basis of accounting. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Anna Local School District, Shelby, County, Ohio, as of June 30, 2006 and June 30, 2005, and the respective changes in modified cash basis financial position and the respective budgetary comparisons for the General Fund, thereof for the years then ended in conformity with the accounting basis described in Note 2.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 9 and 34 through 40 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinions on it.

Rea & Associates, Inc.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

This discussion and analysis of the Anna Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Highlights

Key highlights for fiscal year 2006 are as follows:

Net assets of governmental activities increased \$414,224, or 8 percent.

The District's receipts are primarily property and income taxes and intergovernmental receipts and contributions, which accounted for about 87 percent of the total cash received during the year of \$10,948,189. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$1,155,434 or 11 percent of total revenues. The other 2 percent of receipts was made up of investment earnings and miscellaneous receipts.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the District as a Whole

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for the District's programs. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational and capital requirements of the program.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position are indicators of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other non-financial factors as well such as the condition of the District's capital assets and the reliance on non-local financial resources for operations.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its activities and to help demonstrate that restricted money is being spent for the intended purpose. The fund financial statements provide a detailed view of the District's operations and the basic services it provides. Fund information helps determine whether there are more or less financial resources that can be spent to finance the District's activities. The District's significant funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District's major funds are the General Fund, the Bond Retirement Fund and the Capital Improvement Fund.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006 compared to 2005 on a modified cash basis:

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Equity in Pooled Cash, Cash Equivalents and Investments	\$5,857,932	\$5,445,458
Total Assets	\$5,857,932	\$5,445,458
Net Assets		
Restricted for:		
Debt Service	\$2,039,744	\$1,741,540
Capital Outlay	12,648	(111,309)
Other Purposes	214,573	229,926
Unrestricted	3,590,967	3,585,301
Total Net Assets	\$5,857,932	\$5,445,458

As mentioned previously, net assets of governmental activities increased \$414,224, or 8 percent during fiscal year 2006. The primary reason for the increase in cash balances was an increase in the balance of the bond retirement debt service fund due to increased collections and early state hold harmless payments.

Anna Local School District
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 reflects the changes in net assets in fiscal year 2006, along with a comparative analysis of the changes in net assets for fiscal year 2005.

	Table 2	
	Changes in Net Assets	
	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$749,311	\$645,477
Operating Grants and Contributions	406,123	431,909
Capital Grants and Contributions	0	8,269
Total Program Receipts	<u>1,155,434</u>	<u>1,085,655</u>
General Receipts:		
Property and Other Local Taxes	6,424,199	7,350,319
Income Taxes	539,751	493,578
Payments in Lieu of Taxes	7,986	15,917
Grants and Entitlements Not Restricted to Specific Programs	2,604,087	2,274,081
Interest	211,212	171,752
Miscellaneous	5,520	24,437
Total General Receipts	<u>9,792,755</u>	<u>10,330,084</u>
Total Receipts	<u>10,948,189</u>	<u>11,415,739</u>
Disbursements:		
Instruction:		
Regular	4,144,468	3,900,354
Special	862,199	675,046
Vocational	297,768	290,740
Adult/Continuing	710	715
Other	32,181	70,509
Support Services:		
Pupils	421,450	410,136
Instructional Staff	241,850	260,688
Board of Education	57,684	57,615
Administration	784,338	720,848
Fiscal	333,315	292,780
Business	47,942	69,188
Operation and Maintenance of Plant	905,778	796,830
Pupil Transportation	600,245	464,879
Central	5,164	6,749
Operation of Non-instructional Services	395,879	368,732
Extracurricular Activities	470,995	419,007
Capital Outlay	47,549	486,515
Debt Service		
Principal Retirement	535,000	500,000
Interest and Fiscal Charges	349,450	386,585
Total Disbursements	<u>10,533,965</u>	<u>10,177,916</u>
Increase in Net Assets	414,224	1,237,823
Net Assets, July 1	5,443,708	4,207,635
Net Assets, June 30	<u>\$5,857,932</u>	<u>\$5,445,458</u>

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The District's primary receipts are property and income taxes, which accounted for about 64 percent of the total cash received during the year. Unrestricted intergovernmental grants and contributions accounted for about 24 percent of the total cash received. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$1,155,434 or 11 percent of total revenues. The other 1 percent of receipts was made up of investment earnings and miscellaneous receipts.

Instruction accounted for approximately 51 percent of total cash disbursements for fiscal year 2006, with regular instruction comprising 40 percent of total disbursements. Support services accounted for 33 percent of disbursements during fiscal year 2006.

If you look at the Statement of Activities on page 11, you will see that the first column lists the major activities of the District. The next column identifies the costs of providing these services. The next two columns of the Statement entitled Program Cash Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the District that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3. That is, it identifies the cost of these services supported by property taxes, unrestricted State entitlements and investment earnings.

Table 3
Governmental Activities

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction:				
Regular	\$4,144,468	\$3,955,018	\$3,900,354	\$3,761,590
Special	862,199	554,335	675,046	350,660
Vocational	297,768	273,977	290,740	271,157
Adult/Continuing	710	710	715	715
Other	32,181	32,181	70,509	70,509
Support Services:				
Pupil	421,450	397,876	410,136	378,233
Instructional Staff	241,850	239,674	260,688	257,763
Board of Education	57,684	57,684	57,615	57,615
Administration	784,338	779,338	720,848	712,023
Fiscal	333,315	320,054	292,780	274,460
Business	47,942	41,942	69,188	63,188
Operation and Maintenance of Plant	905,778	905,778	796,830	796,830
Pupil Transportation	600,245	595,999	464,879	456,610
Central	5,164	5,164	6,749	6,749
Operation of Non-Instructional Services	395,879	30,871	368,732	15,914
Extracurricular Activities	470,995	255,931	419,007	245,145
Capital Outlay	47,549	47,549	486,515	486,515
Debt Service				
Principal Retirement	535,000	535,000	500,000	500,000
Interest and Fiscal Charges	349,450	349,450	386,585	386,585
Total Expenses	<u>\$10,533,965</u>	<u>\$9,378,531</u>	<u>\$10,177,916</u>	<u>\$9,092,261</u>

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Charges for services and sales, and operating grants and contributions of about 11 percent of total cash receipts were received and used to fund the expenses of the District. The remaining 89 percent of cash receipts were from property and income taxes, unrestricted State entitlements, investment earnings and miscellaneous receipts. The District relies on these receipts to furnish the services it provides to students.

The District's Funds

All funds of the District are governmental funds. Total funds cash receipts were \$10,948,189 and total fund disbursements were \$10,533,965 for fiscal year 2006. The greatest change within the funds occurred in the Bond Retirement Fund which had an increase of \$298,204 in fund balance due to increased collections and early state hold harmless payments.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2006, the School District amended its General Fund budget once. The original budget basis receipts were \$8,228,933 and the final budget basis receipts were \$8,262,326. The original budget basis disbursements were \$8,766,622 and the final budget basis disbursements were \$9,050,674.

During fiscal year 2006, the School District budgeted \$4,970,035 and received \$5,150,152 in property taxes and budgeted \$2,315,550 and received \$2,399,464 in intergovernmental receipts in the General Fund.

Capital Assets

The District tracks its capital assets on the State EIS system. At June 30, 2006, the book value of the capital assets was \$11,736,447.

Debt Administration

At June 30, 2006, the School District had one debt issue outstanding. It was issued on March 1, 1998 for the purpose of defeasing a 1992 school improvement bond issue and for the purpose of reconstructing, renovating and expanding the high school building. The bonds were issued for a twenty-five year period and have final maturity during fiscal year 2023. During fiscal year 2006, the School District paid \$535,000 in principal on the bonds. The balance outstanding at June 30, 2006 was \$6,535,000.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Current Issues

The Anna Local School District continues to benefit from taxpayer and community support as evidenced by the renewal of the 4 mill 5 year operating levy, passed in 2000, and a 1.5 mill 5 year permanent improvement levy, passed in 2001, which were renewed in 2006. Energetic and motivated volunteer organizations provide significant benefits to District staff, students, and facilities. The District enjoys respectful relations between the highly professional and mature staff and competent administration. A three-year negotiated agreement with the Anna Local Teachers Association extending through June 30, 2007, and a relatively stable student population facilitate the process of budgeting and forecasting.

District administrators are always concerned with State funding formulas but are especially and uniquely impacted with the elimination of tangible personal property tax valuation. School facilities are adequate and appropriately sized, however, additional new housing in the District causes administrators to monitor and assess future needs.

The administration of the Anna Local School District continues to try to balance staff, student, and community interests within the restrictions of current law and resources available. The inherent tension between all constituent groups is currently well managed.

Contacting the District's Financial Management

This financial report is designed to provide our citizens with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Dennis Raberding, Treasurer, Anna Local School District, 1 McRill Way, Anna, Ohio 45302 or e-mail at Draberding@anna.k12.oh.us.

Anna Local School District
Shelby County
Statement of Net Assets - Modified Cash Basis
June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 5,857,932
<i>Total Assets</i>	<i>\$ 5,857,932</i>
 Net Assets	
Restricted for:	
Debt Service	\$ 2,039,744
Capital Outlay	12,648
Other Purposes	214,573
Unrestricted	3,590,967
<i>Total Net Assets</i>	<i>\$ 5,857,932</i>

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2006

	Program Cash Receipts			Net(Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Receipts and Changes in Net Assets
				Governmental Activities
Current:				
Instruction:				
Regular	\$ 4,144,468	\$ 175,542	\$ 13,908	\$ (3,955,018)
Special	862,199	3,815	304,049	(554,335)
Vocational	297,768	0	23,791	(273,977)
Adult/Continuing	710	0	0	(710)
Other	32,181	0	0	(32,181)
Support Services:				
Pupil	421,450	23,360	214	(397,876)
Instructional Staff	241,850	0	2,176	(239,674)
Board of Education	57,684	0	0	(57,684)
Administration	784,338	0	5,000	(779,338)
Fiscal	333,315	13,261	0	(320,054)
Business	47,942	0	6,000	(41,942)
Operation and Maintenance of Plant	905,778	0	0	(905,778)
Pupil Transportation	600,245	0	4,246	(595,999)
Central	5,164	0	0	(5,164)
Operation of Non-instructional Services	395,879	318,269	46,739	(30,871)
Extracurricular Activities	470,995	215,064	0	(255,931)
Capital Outlay	47,549	0	0	(47,549)
Debt Service:				
Principal Retirement	535,000	0	0	(535,000)
Interest and Fiscal Charges	349,450	0	0	(349,450)
Total Governmental Activities	\$ 10,533,965	\$ 749,311	\$ 406,123	(9,378,531)
General Receipts				
Property Taxes Levied for:				
General Purposes				5,150,152
Debt Service				981,646
Capital Outlay				292,401
Income Taxes Levied for General Purposes				539,751
Grants and Entitlements Not Restricted to Specific Programs				2,604,087
Interest				211,212
Payment in Lieu of Taxes				7,986
Rentals				1,430
Contributions and Donations				1,145
Miscellaneous				2,945
Total General Receipts				9,792,755
Change in Net Assets				414,224
<i>Net Assets Beginning of Year</i>				<u>5,443,708</u>
<i>Net Assets End of Year</i>				<u>\$ 5,857,932</u>

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2006

	General	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 3,405,967	\$ 2,039,744	\$ 169,723	\$ 192,150	\$ 5,807,584
Interfund Receivable	185,000	0	0	0	185,000
Restricted Asset:					
Equity in Pooled Cash and Cash Equivalents	50,348	0	0	0	50,348
Total Assets	\$ 3,641,315	\$ 2,039,744	\$ 169,723	\$ 192,150	\$ 6,042,932
Liabilities					
Interfund Payable	\$ 0	\$ 0	\$ 160,000	\$ 25,000	\$ 185,000
Fund Balances					
Reserved for Encumbrances	117,429	0	111,103	900	229,432
Reserved for School Bus Purchase	50,348	0	0	0	50,348
Unreserved:					
Undesignated, Reported in:					
General Fund	3,473,538	0	0	0	3,473,538
Special Revenue Funds	0	0	0	163,325	163,325
Debt Service Funds	0	2,039,744	0	0	2,039,744
Capital Projects Funds	0	0	(101,380)	2,925	(98,455)
Total Fund Balances	3,641,315	2,039,744	9,723	167,150	5,857,932
Total Liabilities and Fund Balances	\$ 3,641,315	\$ 2,039,744	\$ 169,723	\$ 192,150	\$ 6,042,932

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$ 5,150,152	\$ 981,646	\$ 292,401	\$ 0	\$ 6,424,199
Income Tax	539,751	0	0	0	539,751
Intergovernmental	2,399,464	219,239	22,940	365,170	3,006,813
Interest	211,212	0	0	0	211,212
Tuition and Fees	173,671	0	0	0	173,671
Extracurricular Activities	53,703	0	0	172,473	226,176
Customer Sales and Services	0	0	0	331,530	331,530
Rentals	4,930	0	0	0	4,930
Gifts and Donations	4,542	0	0	0	4,542
Payment in Lieu of Taxes Revenue	7,986	0	0	0	7,986
Miscellaneous	17,004	0	0	0	17,004
Total Receipts	8,562,415	1,200,885	315,341	869,173	10,947,814
Disbursements					
Current:					
Instruction:					
Regular	4,107,963	0	26,021	10,484	4,144,468
Special	575,036	0	0	287,163	862,199
Vocational	297,113	0	0	655	297,768
Adult/Continuing	710	0	0	0	710
Other	32,181	0	0	0	32,181
Support Services:					
Pupil	355,781	0	7,790	39,436	403,007
Instructional Staff	238,692	0	0	3,370	242,062
Board of Education	57,684	0	0	0	57,684
Administration	779,278	0	0	5,060	784,338
Fiscal	311,203	18,231	5,472	16,640	351,546
Business	41,942	0	0	6,000	47,942
Operation and Maintenance of Plant	905,778	0	0	0	905,778
Pupil Transportation	490,787	0	109,458	0	600,245
Central	5,164	0	0	0	5,164
Operation of Non-Instructional Services	0	0	0	395,879	395,879
Extracurricular Activities	338,156	0	0	132,839	470,995
Capital Outlay	4,906	0	42,643	0	47,549
Debt Service:					
Principal Retirement	0	535,000	0	0	535,000
Interest and Fiscal Charges	0	349,450	0	0	349,450
Total Disbursements	8,542,374	902,681	191,384	897,526	10,533,965
Excess of Receipts Over (Under)					
<i>Disbursements</i>	20,041	298,204	123,957	(28,353)	413,849
Other Financing Sources (Uses)					
Refund of Prior Year Expenditures	375	0	0	0	375
Transfers In	0	0	0	25,000	25,000
Transfers Out	(25,000)	0	0	0	(25,000)
Total Other Financing Sources (Uses)	(24,625)	0	0	25,000	375
Net Change in Fund Balances	(4,584)	298,204	123,957	(3,353)	414,224
Fund Balances Beginning of Year	3,645,899	1,741,540	(114,234)	170,503	5,443,708
Fund Balances End of Year	\$ 3,641,315	\$ 2,039,744	\$ 9,723	\$ 167,150	\$ 5,857,932

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$ 4,949,948	\$ 4,970,035	\$ 5,150,152	\$ 180,117
Income Tax	518,776	520,881	539,751	18,870
Intergovernmental	2,306,191	2,315,550	2,399,464	83,914
Interest	203,003	203,827	211,212	7,385
Tuition and Fees	166,925	167,602	173,671	6,069
Extracurricular Activities	51,616	51,825	53,703	1,878
Rentals	4,739	4,758	4,930	172
Gifts and Donations	4,372	4,390	4,542	152
Payment in Lieu of Taxes Revenue	7,679	7,710	7,986	276
Miscellaneous	14,668	14,728	15,254	526
Total Receipts	8,227,917	8,261,306	8,560,665	299,359
Disbursements				
Current:				
Instruction:				
Regular	4,135,130	4,230,463	4,144,110	86,353
Special	578,839	587,391	575,401	11,990
Vocational	299,078	307,039	300,774	6,265
Adult/Continuing	715	725	710	15
Other	32,394	32,852	32,181	671
Support Services:				
Pupil	358,134	367,300	359,803	7,497
Instructional Staff	240,271	243,897	238,919	4,978
Board of Education	58,065	58,886	57,684	1,202
Administration	784,432	796,906	780,640	16,266
Fiscal	313,261	323,608	317,003	6,605
Business	42,219	42,816	41,942	874
Operation and Maintenance of Plant	911,768	973,231	953,367	19,864
Pupil Transportation	494,033	519,651	509,044	10,607
Central	5,198	5,272	5,164	108
Extracurricular Activities	294,147	341,629	338,156	3,473
Capital Outlay	4,938	5,008	4,906	102
Total Disbursements	8,552,622	8,836,674	8,659,804	176,870
Excess of Receipts Under Disbursements	(324,705)	(575,368)	(99,139)	476,229
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	650	652	725	73
Advances In	294,175	295,369	306,069	10,700
Advances Out	(189,000)	(189,000)	(189,000)	0
Refund of Prior Year Expenditures	366	368	375	7
Transfers Out	(25,000)	(25,000)	(25,000)	0
Total Other Financing Sources (Uses)	81,191	82,389	93,169	10,780
Net Change in Fund Balance	(243,514)	(492,979)	(5,970)	487,009
Fund Balance Beginning of Year	3,148,423	3,148,423	3,148,423	0
Prior Year Encumbrances Appropriated	191,908	191,908	191,908	0
Fund Balance End of Year	\$ 3,096,817	\$ 2,847,352	\$ 3,334,361	\$ 487,009

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 86,628
Net Assets	
Unrestricted	\$ 86,628

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Anna Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and federal agencies.

The School District serves an area of approximately 70 square miles. It is located in Shelby County, and includes all of the Villages of Anna and Kettlersville and all or part of Van Buren, Dinsmore, Franklin, Turtle Creek, Salem and McLean Townships. It is staffed by 56 non-certified employees, 75 certified full-time teaching personnel, and four administrative employees who provide services to 1,224 students and other community members. The School District currently operates two instructional buildings and one vocational agriculture building.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable, or for which the School District is not financially accountable but the nature and significance of the School District's relationship with the separate organization is such that it is required to be presented as a component unit. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Organizations for which the School District is not financially accountable are component units of the School District if (1) economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the School District or its constituents, (2) the School District is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the organization and (3) the economic resources received or held by the organization are significant to the School District. Anna Local School District has no component units.

The School District participates in four jointly governed organizations and three insurance purchasing pools. A jointly governed organization is governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility on the part of the participating governments. An insurance purchasing pool is an organization formed by a group of governments to pool funds or resources to purchase commercial insurance policies. These organizations are discussed in Notes 13 and 14 to the basic financial statements. These organizations are:

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (continued)

Jointly Governed Organizations:

Western Ohio Computer Organization
Anna Education Foundation
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Ohio School Boards Association Workers' Compensation Group Rating Plan
Shelby County Schools Consortium
Ohio School Insurance Program

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental Fund Types - The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund accounts for property tax receipts and State exemption reimbursements collected for the payment of general obligation bonded debt.

Capital Improvement Fund - The Capital Improvement Fund accounts for property tax receipts and State exemption reimbursements collected for capital purchases and improvements.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds: Fiduciary funds account for cash and investments where the School District is acting as trustee or fiscal agent for other entities or individuals. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The unreimbursed medical claims agency fund accounts for the pretax dollars that employees have taken out of their pay check to be used as needed for medical bills. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

B. Basis of Presentation

The School District's basic financial statements consist of a government-wide statement of net assets and a statement of activities, and fund financial statements providing more detailed financial information.

Government-wide Financial Statement of Activities: This statement displays information about the School District as a whole.

The government-wide statement of activities compares disbursements with program receipts for each function of the School District's governmental activities. These disbursements are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified-cash basis or draws from the School District's general receipts.

Fund Financial Statements: Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash, Cash Equivalents and Investments

The School District pools cash from all funds for investment purposes. Interest in the pool is presented as "equity in pooled cash, cash equivalents and investments" on the financial statements.

The School District values investments and cash equivalents at cost.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest received into the General Fund during fiscal year 2006 was \$211,212 including \$78,690 assigned from other School District funds.

For presentation on the financial statements, investments with an original maturity of three months or less when purchased are deemed cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies are reported as disbursements when purchased.

E. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified-cash basis of accounting.

G. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances and bus purchases. The reserve for bus purchases represents money required to be spent on buses.

H. Net Assets

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the statement of net assets.

J. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the certificate that was in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated receipts. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

K. Long-Term Debt

Under Ohio law, a debt service fund must be created and used for the payment of tax and receipt anticipation notes. Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

L. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Receipts, Disbursements, and Expenses

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, and operating grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

NOTE 3 –CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2006, the School District has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation."

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the School District.

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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, but not limited to, passbook accounts.

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

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage and 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 discloses the risks associated with the School District's deposits and investments as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

A. Deposits

At June 30, 2006, the carrying amount of the School District's deposits was \$929,913 and the bank balance was \$997,163. Of the School District's bank balance, \$100,000 was insured and \$897,163 was collateralized.

B. Investments

As of June 30, 2006, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities</u>			
	<u>Carrying Value</u>	<u>Less Than One Year</u>	<u>One to Two Years</u>	<u>Two to Three Years</u>
Federal Home Loan Bank	\$2,120,000	\$700,000	\$1,400,000	\$20,000
Federal Home Loan Mortgage Corporation	1,407,120	403,406	250,000	753,714
Federal National Mortgage Association	1,428,057	349,133	301,060	777,864
STAR Ohio	44,470	44,470	0	0
Money Market Mutual Fund	15,000	15,000	0	0
Total	\$5,014,647	\$1,512,009	\$1,951,060	\$1,551,578

Interest Rate Risk: State statute limits the maturity of investments to five years unless matched to a specific obligation or debt of the School District. The School District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issuer. 42% of the School District's investments at June 30, 2006, were in the Federal Home Loan Bank, 28% were in the Federal Home Loan Mortgage Corporation and 28% were in the Federal National Mortgage Association.

Credit Risk: State statute limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's at June 30, 2006. The School District's investment in STAR Ohio was rated AAA by Standard & Poor's at June 30, 2006. The School District's Investment in the money market mutual fund was not rated at June 30, 2006.

NOTE 5 - PROPERTY TAXES

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

**Anna Local School District
Shelby County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 5 - PROPERTY TAXES (continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2004, were levied after April 1, 2005, and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2006, was \$135,637 in the General Fund, \$24,205 in the Bond Retirement Debt Service Fund, and \$8,235 in the Capital Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$99,795,730	47.40%	\$106,525,620	56.79%
Public Utility – Personal	4,363,220	2.07	4,333,130	2.31
Tangible Personal Property	106,374,814	50.53	76,719,193	40.90
Total Assessed Value	<u>\$210,533,764</u>	<u>100.00%</u>	<u>\$187,577,943</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.90		\$33.70	

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - INCOME TAX

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1983, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts credited to the General Fund for fiscal year 2006 were \$539,751.

NOTE 7 - INTERFUND TRANSFERS AND ADVANCES

The General Fund had an interfund receivable at June 30, 2006 of \$185,000. The Capital Improvement Capital Projects Fund had an interfund payable at June 30, 2006 of \$160,000 while all other nonmajor funds had interfund payables of \$25,000.

General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds or paying expenditures of other funds due to timing differences in the receiving of grant and property tax monies. When the monies are finally received, those funds reimburse the General Fund for the initial advance.

The General Fund had transfers out to nonmajor funds of \$25,000 during fiscal year 2006.

Transfers are used to move General Fund receipts that are used to subsidize various programs in other funds and to create a balance to be used in the future.

NOTE 8 - RISK MANAGEMENT

A. Property and Liability

The School District has obtained commercial insurance for the following risks:

- Building and Contents – replacement cost
- Automobile Liability
- General Liability

There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control, and actuarial services to the GRP.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the CD Plan who become disabled are entitled to only their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations; the same portion that was used to fund pension obligations for fiscal year 2005. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$559,609, \$530,056 and \$500,307, respectively; 83 percent has been contributed fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$8,716 made by the School District and \$17,359 made by the plan members.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 – PENSION PLANS (continued)

B. School Employees Retirement System

The School 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 members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For fiscal year 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate of 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$123,984, \$130,139, and \$95,678, respectively; 51 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, all five members of the Board of Education members have elected Social Security. The Governing Board's liability is 6.2 percent of wages.

NOTE 10 – POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund; the same percentage that was allocated to the Health Care Stabilization Fund for the fiscal year ended June 30, 2005. For the School District, this amount equaled \$43,047 for fiscal year 2006.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$63,107.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently eligible to receive health care benefits.

NOTE 11 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time up to 50 days is paid to classified employees and administrators upon termination of employment.

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 216 days for all personnel. Upon retirement with five years of service, or upon separation with twenty years of service at the School District, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees. Upon retirement, payment to the Treasurer and Superintendent is made for 35 percent of accrued, but unused sick leave credit to a maximum of 70 days.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 – OTHER EMPLOYEE BENEFITS (continued)

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance through Medical Life to most employees. Medical/surgical and dental benefits are provided by Anthem. Coverage for vision benefits is provided by Vision Service Plan.

C. Deferred Compensation Plan

The Superintendent and the Treasurer participate in the Baird Company Deferred Compensation Plan. The plan was created in accordance with Internal Revenue Code Section 457 (f). The Board of Education contributes \$5,000 each year for each participant. Employer contributions are vested at 50 percent after five years of service and at 100 percent after ten years. All earnings are immediately vested to the participants. Additional voluntary payroll deduction contributions are permitted and are immediately vested. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 12 – LONG-TERM OBLIGATIONS

School Building Construction and Improvement Refunding General Obligation Bonds – On March 1, 1998, the School District issued bonds in the amount of \$9,740,000. The bonds were issued for the purpose of the defeasance of a 1992 School Improvement outstanding bond issue and for the purpose of reconstructing, renovating and expanding the high school building. The bond issue included \$5,935,000 in serial bonds and \$3,805,000 in term bonds. The serial bonds were issued for a twenty-three year period with final maturity on December 1, 2014. These bonds have interest rates ranging from 3.65 to 5.1 percent. The term bonds have a 5.1 percent interest rate with a final maturity on December 1, 2022. The bonds are paid from the Bond Retirement Debt Service Fund.

The balance outstanding on the bonds at June 30, 2005 was \$7,070,000. During fiscal year 2006, \$535,000 was paid on the bonds, leaving an outstanding balance at June 30, 2006 of \$6,535,000. The amount due within one year is \$245,000.

The School District’s overall legal debt margin was \$11,781,070 and the unvoted debt margin was \$180,848 at June 30, 2006. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2007	\$245,000	\$324,678	\$569,678
2008	255,000	313,427	568,427
2009	270,000	301,615	571,615
2010	285,000	287,916	572,916
2011	300,000	272,418	572,418
2012 – 2016	1,765,000	1,101,257	2,866,257
2017 – 2021	2,310,000	587,041	2,897,041
2022 – 2023	1,105,000	56,993	1,161,993
Total	<u>\$6,535,000</u>	<u>\$3,245,345</u>	<u>\$9,780,345</u>

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Payments to WOCO are made from the General Fund. The School District paid WOCO \$32,021 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

B. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the School District paid \$787 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio

C. Anna Local Schools Education Foundation

The Anna Education Foundation is a non-profit corporation whose purpose is to provide financial assistance for enhanced educational and/or career opportunities to residents, employees, and current and former students of the School District. The board is made up of nine members, one of which is appointed by the Anna Local School Board. The remaining eight members are elected by the Board of Trustees. Seven of the nine trustees must be residents of the School District. Payments to the Anna Education Foundation are made from the General Fund. The School District paid \$437 to the Anna Education Foundation during the fiscal year. Information on this organization can be obtained from David Richard, who serves as Treasurer, at Post Office Box 475, Anna, Ohio 45302.

D. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS (continued)

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2006, the School District paid \$2,532 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005

NOTE 14 - INSURANCE PURCHASING POOLS

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

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

B. Shelby County Schools Consortium

The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, Anthem and Community National Assurance Company. The Group is governed by an administrative committee consisting of the superintendent from each participating school district and the educational service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, at 131 North Ludlow Street, Dayton, Ohio 45402.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 – INSURANCE PURCHASING POOLS (continued)

C. Ohio School Insurance Program

The School District participates in the Ohio School Insurance Program (OSIP), an insurance purchasing pool. The Ohio School Insurance Program (OSIP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSIP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSIP's business and affairs are conducted by a fifteen member Board of Directors consisting of School District superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSIP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSIP and member schools.

NOTE 15 – CONTINGENCIES

The School District receives financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

NOTE 16 - SET-ASIDE CALCULATIONS

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

The following information describes the change in the fiscal year-end set-aside amounts for capital improvements and textbooks/instructional materials.

	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
	<u> </u>	<u> </u>
Set-aside Cash Balance as of June 30, 2005	(\$6,665,209)	(\$183,286)
Current Fiscal Year Set-aside Requirement	171,894	171,894
Current Year Offsets	(1,274,047)	0
Qualifying Disbursements	<u>(22,979)</u>	<u>(131,257)</u>
Total	<u>(7,790,341)</u>	<u>(142,649)</u>
Set-aside Cash Balance Carried Forward to Future Fiscal Years	<u>(\$7,790,341)</u>	<u>(\$142,269)</u>

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16 - SET-ASIDE CALCULATIONS (continued)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements and textbooks/instructional materials set-asides below zero. These extra amounts may be used to reduce the set-aside requirements in future fiscal years.

NOTE 17 - SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2006, the School District had significant contractual purchase commitments as follows:

<u>Vendor</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/06</u>
Farnham Equipment	Bleacher Service	\$5,700	\$0	\$5,700
Cotterman & Company	Gutter repair at elementary	15,637	0	15,637
Powell Company	Windor compass cleaning	8,321	0	8,321
John Deere Company	Tractor	17,846	0	17,846
Schoolhouse Electronics	Projectors, mounts, cables	9,350	0	9,350
Prenger Implement	Computer equipment/software	47,325	0	47,325
Totals		<u>\$104,179</u>	<u>\$0</u>	<u>\$104,179</u>

NOTE 18 – ACCOUNTABILITY

A. Fund Balances

The School District had several funds throughout the year with fund deficits.

B. Cash Balances

The School District had several funds throughout the year with deficit cash balances.

NOTE 19 – SUBSEQUENT EVENT

In December, 2006 the Board approved the use of \$1.4 million of the Debt Service Fund balance and passed a resolution authorizing the issuance of up to \$6.29 million of bonds for the purpose of advance refunding bonds issued in 1998 and 1992.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

This discussion and analysis of the Anna Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Highlights

Key highlights for fiscal year 2005 are as follows:

Net assets of governmental activities increased \$1,237,823, or 29 percent.

The District's receipts are primarily property taxes and intergovernmental receipts and contributions, which accounted for about 89 percent of the total cash received during the year of \$11,415,739. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$1,085,655 or 9.5 percent of total revenues. The other 1.5 percent of receipts was made up of investment earnings and miscellaneous receipts.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

Anna Local School District
Shelby County
Management's Discussion and Analysis
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Unaudited

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the District as a Whole

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for the District's programs. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational and capital requirements of the program.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other non-financial factors as well such as the condition of the District's capital assets and the reliance on non-local financial resources for operations.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The fund financial statements provide a detailed view of the District's operations and the basic services it provides. Fund information helps determine whether there are more or less financial resources that can be spent to finance the District's activities. The District's significant funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District's major funds are the General Fund, the Bond Retirement Fund and the Capital Improvement Fund.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to 2004 on a modified cash basis:

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Equity in Pooled Cash, Cash Equivalents and Investments	\$5,445,458	\$4,207,635
Total Assets	\$5,445,458	\$4,207,635
Net Assets		
Restricted for:		
Debt Service	\$1,741,540	\$1,454,738
Capital Outlay	(111,309)	104,990
Other Purposes	229,926	246,194
Unrestricted	3,585,301	2,401,713
Total Net Assets	\$5,445,458	\$4,207,635

As mentioned previously, net assets of governmental activities increased \$1,237,823, or 29 percent during fiscal year 2005. The primary reason for the increase in cash balances was the collection of omitted tangible property taxes.

Table 2 reflects the changes in net assets in fiscal year 2005. Since the District did not prepare financial statements in this format for fiscal year 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$645,477
Operating Grants and Contributions	431,909
Capital Grants and Contributions	8,269
Total Program Receipts	1,085,655
General Receipts:	
Property and Other Local Taxes	7,350,319
Income Taxes	493,578
Payments in Lieu of Taxes	15,917
Grants and Entitlements Not Restricted to Specific Programs	2,274,081
Interest	171,752
Miscellaneous	24,437
Total General Receipts	10,330,084
Total Receipts	11,415,739
Disbursements:	
Instruction:	
Regular	3,900,354
Special	675,046
Vocational	290,740
Adult/Continuing	715
Other	70,509
Support Services:	
Pupils	410,136
Instructional Staff	260,688
Board of Education	57,615
Administration	720,848
Fiscal	292,780
Business	69,188
Operation and Maintenance of Plant	796,830
Pupil Transportation	464,879
Central	6,749
Operation of Non-instructional Services	368,732
Extracurricular Activities	419,007
Capital Outlay	486,515
Debt Service	
Principal Retirement	500,000
Interest and Fiscal Charges	386,585
Total Disbursements	10,177,916
Increase in Net Assets	1,237,823
Net Assets, July 1, 2004	4,207,635
Net Assets, June 30, 2005	\$5,445,458

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The District's primary receipts are property and income taxes, which accounted for about 69 percent of the total cash received during the year. Unrestricted intergovernmental grants and contributions accounted for about 20 percent of the total cash received. Program specific revenues in the form of charges for services, operating grants and contributions and capital grants and contributions accounted for \$1,085,655 or 9.5 percent of total revenues. The other 1.5 percent of receipts was made up of investment earnings and miscellaneous receipts.

Instruction accounted for approximately 49 percent of total cash disbursements for fiscal year 2005, with regular instruction comprising 38 percent of total disbursements. Support services accounted for 18 percent of disbursements during fiscal year 2005. Operation and maintenance of plant accounted for about 8 percent of disbursements. Pupil transportation accounted for about 5 percent of disbursements. Debt service accounted for about 9 percent of disbursements, extracurricular activities accounted for about 4 percent, and capital outlay accounted for about 8 percent of disbursements.

If you look at the Statement of Activities on page 42, you will see that the first column lists the major activities of the District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the District that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3. That is, it identifies the cost of these services supported by property taxes, unrestricted State entitlements and investment earnings.

Table 3 - Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction:		
Regular	\$3,900,354	\$3,761,590
Special	675,046	350,660
Vocational	290,740	271,157
Adult/Continuing	715	715
Other	70,509	70,509
Support Services:		
Pupil	410,136	378,233
Instructional Staff	260,688	257,763
Board of Education	57,615	57,615
Administration	720,848	712,023
Fiscal	292,780	274,460
Business	69,188	63,188
Operation and Maintenance of Plant	796,830	796,830
Pupil Transportation	464,879	456,610
Central	6,749	6,749
Operation of Non-Instructional Services	368,732	15,914
Extracurricular Activities	419,007	245,145
Capital Outlay	486,515	486,515
Debt Service		
Principal Retirement	500,000	500,000
Interest and Fiscal Charges	386,585	386,585
Total Expenses	\$10,177,916	\$9,092,261

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Charges for services and sales, operating grants and contributions and capital grants and contributions of about 10 percent of total cash receipts were received and used to fund the expenses of the District. The remaining 90 percent of cash receipts were from property and income taxes, unrestricted State entitlements, investment earnings and miscellaneous receipts. The District relies on these receipts to furnish the services it provides to students.

The District's Funds

All funds of the District are governmental funds. Total funds cash receipts were \$11,415,739 and total fund disbursements were \$10,177,916 for fiscal year 2005. The greatest change within the funds occurred in the General Fund which had an increase of \$1,191,858 in fund balance due largely to the collection of omitted tangible property taxes.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005, the School District amended its General Fund budget once. The original budget basis receipts were \$7,530,762 and the final budget basis receipts were \$7,528,350. The original budget basis disbursements were \$7,758,298 and the final budget basis disbursements were \$8,219,227.

During fiscal year 2005, the School District budgeted \$4,922,649 and received \$5,903,105 in property taxes and budgeted \$1,873,699 and received \$2,246,885 in intergovernmental receipts in the General Fund.

Capital Assets

The District tracks its capital assets on the State EIS system. At June 30, 2005, the book value of the capital assets was \$11,890,366.

Debt Administration

At June 30, 2005, the School District had one debt issue outstanding. It was issued on March 1, 1998 for the purpose of defeasing a 1992 school improvement bond issue and for the purpose of reconstructing, renovating and expanding the high school building. The bonds were issued for a twenty-five year period and have final maturity during fiscal year 2023. During fiscal year 2005, the School District paid \$500,000 in principal on the bonds. The balance outstanding at June 30, 2005 was \$7,070,000.

Anna Local School District
Shelby County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Current Issues

The Anna Local School District continues to benefit from taxpayer and community support as evidenced by the renewal of the 4 mill 5 year operating levy first passed in 2000 and a 1.5 mill 5 year permanent improvement levy passed in 2001. Energetic and motivated volunteer organizations provide significant benefits to District staff, students, and facilities. The District enjoys respectful relations between the highly professional and mature staff and the competent and stable administration. A three-year negotiated agreement with the Anna Local Teachers Association extending through June 30, 2007, and a relatively stable student population facilitate the process of budgeting and forecasting.

District administrators are always concerned with State funding formulas but are especially and uniquely concerned with proposed changes in the personal property tax assessment and collection process because of the high amount of personal property valuation within the District. School facilities are adequate and appropriately sized, however, additional new housing in the District causes administrators to monitor and assess future needs. Renewing the 1.5 mill permanent improvement levy in 2006 is critically important.

The administration of the Anna Local School District continues to try to balance staff, student, and community interests within the restrictions of current law and resources available. The inherent tension between all constituent groups is currently well managed.

Contacting the District's Financial Management

This financial report is designed to provide our citizens with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Dennis Raberding, Treasurer, Anna Local School District, 1 McRill Way, Anna, Ohio 45302 or e-mail at Draberding@anna.k12.oh.us.

Anna Local School District
Shelby County
Statement of Net Assets - Modified Cash Basis
June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 5,445,458
<i>Total Assets</i>	\$ 5,445,458
 Net Assets	
Restricted for:	
Debt Service	\$ 1,741,540
Capital Outlay	(111,309)
Other Purposes	229,926
Unrestricted	3,585,301
<i>Total Net Assets</i>	\$ 5,445,458

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Current:					
Instruction:					
Regular	\$ 3,900,354	\$ 109,455	\$ 29,309	\$ 0	\$ (3,761,590)
Special	675,046	8,397	315,989	0	(350,660)
Vocational	290,740	0	19,583	0	(271,157)
Adult/Continuing	715	0	0	0	(715)
Other	70,509	0	0	0	(70,509)
Support Services:					
Pupil	410,136	25,594	6,309	0	(378,233)
Instructional Staff	260,688	0	2,925	0	(257,763)
Board of Education	57,615	0	0	0	(57,615)
Administration	720,848	0	8,825	0	(712,023)
Fiscal	292,780	18,320	0	0	(274,460)
Business	69,188	0	6,000	0	(63,188)
Operation and Maintenance of Plant	796,830	0	0	0	(796,830)
Pupil Transportation	464,879	0	0	8,269	(456,610)
Central	6,749	0	0	0	(6,749)
Operation of Non-instructional Services	368,732	309,849	42,969	0	(15,914)
Extracurricular Activities	419,007	173,862	0	0	(245,145)
Capital Outlay	486,515	0	0	0	(486,515)
Debt Service:					
Principal Retirement	500,000	0	0	0	(500,000)
Interest and Fiscal Charges	386,585	0	0	0	(386,585)
Total Governmental Activities	\$ 10,177,916	\$ 645,477	\$ 431,909	\$ 8,269	(9,092,261)
		General Receipts			
		Property Taxes Levied for:			
		General Purposes			5,903,105
		Debt Service			1,126,657
		Capital Outlay			320,557
		Income Taxes Levied for General Purposes			493,578
		Grants and Entitlements Not Restricted			
		to Specific Programs			2,274,081
		Interest			171,752
		Payment in Lieu of Taxes			15,917
		Rentals			2,090
		Contributions and Donations			1,595
		Miscellaneous			20,752
		Total General Receipts			10,330,084
		Change in Net Assets			1,237,823
		Net Assets Beginning of Year			4,207,635
		Net Assets End of Year			\$5,445,458

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash, Cash Equivalents and Investments	\$ 3,279,732	\$ 1,741,540	\$ 160,766	\$ 201,072	\$ 5,383,110
Interfund Receivable	305,569	0	0	0	305,569
Restricted Asset:					
Equity in Pooled Cash and Cash Equivalents	62,348	0	0	0	62,348
Total Assets	<u>\$ 3,647,649</u>	<u>\$ 1,741,540</u>	<u>\$ 160,766</u>	<u>\$ 201,072</u>	<u>\$ 5,751,027</u>
Liabilities					
Interfund Payable	\$ 0	\$ 0	\$ 275,000	\$ 30,569	\$ 305,569
Fund Balances					
Reserved for Encumbrances	191,905	0	94,630	22,938	309,473
Reserved for School Bus Purchase	62,348	0	0	0	62,348
Unreserved:					
Undesignated, Reported in:					
General Fund	3,393,396	0	0	0	3,393,396
Special Revenue Funds	0	0	0	144,640	144,640
Debt Service Funds	0	1,741,540	0	0	1,741,540
Capital Projects Funds	0	0	(208,864)	2,925	(205,939)
Total Fund Balances	<u>3,647,649</u>	<u>1,741,540</u>	<u>(114,234)</u>	<u>170,503</u>	<u>5,445,458</u>
Total Liabilities and Fund Balances	<u>\$ 3,647,649</u>	<u>\$ 1,741,540</u>	<u>\$ 160,766</u>	<u>\$ 201,072</u>	<u>\$ 5,751,027</u>

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$ 5,903,105	\$ 1,126,657	\$ 320,557	\$ 0	\$ 7,350,319
Income Tax	493,578	0	0	0	493,578
Intergovernmental	2,246,885	60,691	16,922	371,198	2,695,696
Interest	171,752	0	0	74	171,826
Tuition and Fees	112,037	0	0	0	112,037
Extracurricular Activities	19,597	0	0	167,711	187,308
Customer Sales and Services	0	0	0	322,802	322,802
Rentals	5,590	0	0	0	5,590
Gifts and Donations	20,084	0	0	0	20,084
Payment in Lieu of Taxes Revenue	15,917	0	0	0	15,917
Miscellaneous	24,183	0	0	0	24,183
Total Receipts	9,012,728	1,187,348	337,479	861,785	11,399,340
Disbursements					
Current:					
Instruction:					
Regular	3,827,668	0	61,866	10,820	3,900,354
Special	376,823	0	0	298,223	675,046
Vocational	285,267	0	0	5,473	290,740
Adult/Continuing	715	0	0	0	715
Other	70,509	0	0	0	70,509
Support Services:					
Pupil	374,645	0	0	35,491	410,136
Instructional Staff	253,115	0	0	7,573	260,688
Board of Education	57,615	0	0	0	57,615
Administration	715,841	0	0	5,007	720,848
Fiscal	258,731	13,961	3,888	16,200	292,780
Business	63,188	0	0	6,000	69,188
Operation and Maintenance of Plant	789,777	0	7,053	0	796,830
Pupil Transportation	464,879	0	0	0	464,879
Central	6,749	0	0	0	6,749
Operation of Non-Instructional Services	0	0	0	368,732	368,732
Extracurricular Activities	278,703	0	0	140,304	419,007
Capital Outlay	3,044	0	456,108	27,363	486,515
Debt Service:					
Principal Retirement	0	500,000	0	0	500,000
Interest and Fiscal Charges	0	386,585	0	0	386,585
Total Disbursements	7,827,269	900,546	528,915	921,186	10,177,916
Excess of Receipts Over (Under) Disbursements	1,185,459	286,802	(191,436)	(59,401)	1,221,424
Other Financing Sources (Uses)					
Refund of Prior Year Expenditures	16,399	0	0	0	16,399
Transfers In	0	0	0	12,500	12,500
Transfers Out	(10,000)	0	0	(2,500)	(12,500)
Total Other Financing Sources (Uses)	6,399	0	0	10,000	16,399
Net Change in Fund Balances	1,191,858	286,802	(191,436)	(49,401)	1,237,823
Fund Balances Beginning of Year	2,455,791	1,454,738	77,202	219,904	4,207,635
Fund Balances End of Year	\$ 3,647,649	\$ 1,741,540	\$ (114,234)	\$ 170,503	\$ 5,445,458

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property Taxes	\$ 4,924,226	\$ 4,922,649	\$ 5,903,105	\$ 980,456
Income Tax	411,737	411,605	493,578	81,973
Intergovernmental	1,874,300	1,873,699	2,246,885	373,186
Interest	143,275	143,229	171,752	28,523
Tuition and Fees	93,460	93,430	112,037	18,607
Extracurricular Activities	16,351	16,346	19,597	3,251
Rentals	4,664	4,662	5,590	928
Gifts and Donations	16,761	16,756	20,084	3,328
Payment in Lieu of Taxes Revenue	13,278	13,273	15,917	2,644
Miscellaneous	18,720	18,714	22,433	3,719
<i>Total Receipts</i>	<u>7,516,772</u>	<u>7,514,363</u>	<u>9,010,978</u>	<u>1,496,615</u>
Disbursements				
Current:				
Instruction:				
Regular	3,777,506	4,001,931	3,904,547	97,384
Special	365,177	386,872	377,453	9,419
Vocational	277,607	294,100	286,944	7,156
Adult/Continuing	693	735	715	20
Other	74,784	79,227	77,293	1,934
Support Services:				
Pupil	373,463	395,651	386,024	9,627
Instructional Staff	245,230	259,799	253,476	6,323
Board of Education	55,741	59,053	57,615	1,438
Administration	696,953	738,359	720,391	17,968
Fiscal	255,909	271,113	264,510	6,603
Business	61,136	64,768	63,188	1,580
Operation and Maintenance of Plant	824,163	873,127	851,876	21,251
Pupil Transportation	470,410	498,358	486,227	12,131
Central	6,536	6,925	6,749	176
Extracurricular Activities	270,039	286,083	279,122	6,961
Capital Outlay	2,951	3,126	3,044	82
<i>Total Disbursements</i>	<u>7,758,298</u>	<u>8,219,227</u>	<u>8,019,174</u>	<u>200,053</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(241,526)</u>	<u>(704,864)</u>	<u>991,804</u>	<u>1,696,668</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	311	312	425	113
Refund of Prior Year Expenditures	13,679	13,675	16,399	2,724
Advances In	326,998	326,893	392,000	65,107
Transfers In	338,301	338,192	405,545	67,353
Advances Out	(295,627)	(313,190)	(305,569)	7,621
Transfers Out	(401,978)	(425,860)	(415,545)	10,315
<i>Total Other Financing Sources (Uses)</i>	<u>(18,316)</u>	<u>(59,978)</u>	<u>93,255</u>	<u>153,233</u>
<i>Net Change in Fund Balance</i>	<u>(259,842)</u>	<u>(764,842)</u>	<u>1,085,059</u>	<u>1,849,901</u>
<i>Fund Balance Beginning of Year</i>	<u>1,930,134</u>	<u>1,930,134</u>	<u>1,930,134</u>	<u>0</u>
Prior Year Encumbrances Appropriated	140,657	140,657	140,657	0
<i>Fund Balance End of Year</i>	<u>\$ 1,810,949</u>	<u>\$ 1,305,949</u>	<u>\$ 3,155,850</u>	<u>\$ 1,849,901</u>

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County, Ohio
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 87,586
Net Assets	
Unrestricted	\$ 87,586

See accompanying notes to the basic financial statements

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Anna Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and federal agencies.

The School District serves an area of approximately 70 square miles. It is located in Shelby County, and includes all of the Villages of Anna and Kettlersville and all or part of Van Buren, Dinsmore, Franklin, Turtle Creek, Salem and McLean Townships. It is staffed by 59 non-certified employees, 77 certified full-time teaching personnel, and four administrative employees who provide services to 1,201 students and other community members. The School District currently operates two instructional buildings and one vocational agriculture building.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable, or for which the School District is not financially accountable but the nature and significance of the School District's relationship with the separate organization is such that it is required to be presented as a component unit. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Organizations for which the School District is not financially accountable are component units of the School District if (1) economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the School District or its constituents, (2) the School District is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the organization and (3) the economic resources received or held by the organization are significant to the School District. Anna Local School District has no component units.

The School District participates in four jointly governed organizations and three insurance purchasing pools. A jointly governed organization is governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility on the part of the participating governments. An insurance purchasing pool is an organization formed by a group of governments to pool funds or resources to purchase commercial insurance policies. These organizations are discussed in Notes 13 and 14 to the basic financial statements. These organizations are:

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (continued)

Jointly Governed Organizations:

Western Ohio Computer Organization
Southwestern Ohio Educational Purchasing Council
Anna Local Schools Education Foundation
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Ohio School Boards Association Workers' Compensation Group Rating Plan
Shelby County Schools Consortium
Ohio School Insurance Program

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental Fund Types - The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund accounts for property tax revenues and State exemption reimbursements collected for the payment of general obligation bonded debt.

Capital Improvement Fund - The Capital Improvement Fund accounts for property tax revenues and State exemption reimbursements collected for capital purchases and improvements.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds: Fiduciary funds account for cash and investments where the School District is acting as trustee or fiscal agent for other entities or individuals. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The unreimbursed medical claims agency fund accounts for the pretax dollars that employees have taken out of their pay check to be used as needed for medical bills. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

B. Basis of Presentation

The School District's basic financial statements consist of a government-wide statement of net assets and a statement of activities, and fund financial statements providing more detailed financial information.

Government-wide Financial Statement of Activities: This statement displays information about the School District as a whole.

The government-wide statement of activities compares disbursements with program receipts for each function of the School District's governmental activities. These disbursements are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified-cash basis or draws from the School District's general receipts.

Fund Financial Statements: Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash, Cash Equivalents and Investments

The School District pools cash from all funds for investment purposes. Interest in the pool is presented as "equity in pooled cash, cash equivalents and investments" on the financial statements.

The School District values investments and cash equivalents at cost.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest received into the General Fund during fiscal year 2005 was \$171,752, including \$39,339 assigned from other School District funds.

For presentation on the financial statements, investments with an original maturity of three months or less when purchased are deemed cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies are reported as disbursements when purchased.

E. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified-cash basis of accounting.

G. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances and bus purchases. The reserve for bus purchases represents money required to be spent on buses.

H. Net Assets

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. On fund financial statements, receivables are classified as “interfund receivables/payables.” These amounts are eliminated in the Statement of Net Assets.

J. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the certificate that was in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

K. Long-Term Debt

Under Ohio law, a debt service fund must be created and used for the payment of tax and receipt anticipation notes. Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements. The accounting for proprietary funds is the same in the fund financial statements as in the government-wide financial statements.

L. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant money is received.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Receipts, Disbursements, and Expenses

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, operating grants and contributions, and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2005, the School District has prepared its financial statements on the modified cash basis of accounting and put them into a GASB 34 look-alike format. The following changes to fund balances were the result of converting from cash to modified cash basis accounting in the GASB 34 format and the correction of an error:

	General Fund	Other Governmental Funds	Enterprise Funds
Fund Balance June 30, 2004	\$1,906,955	\$2,104,249	\$158,362
Interfund Receivable	385,000	0	0
Interfund Payable	0	(385,000)	
Reclassification of expendable trust funds	18,009	18,417	0
Reclassification of enterprise funds	153,555	4,807	(158,362)
Reclassification of internal service Fund	1,643	0	
Correction of an error	(9,371)	9,371	0
Restated Fund Balance June 30, 2004	<u>\$2,455,791</u>	<u>\$1,751,844</u>	<u>\$0</u>

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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, but not limited to, passbook accounts.

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

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 only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage and 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 discloses the risks associated with the School District's deposits and investments as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

A. Deposits

At June 30, 2005, the carrying amount of the School District's deposits was \$352,233 and the bank balance was \$369,908. Of the School District's bank balance, \$178,568 was insured and \$191,340 was collateralized.

Custodial Credit Risk Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June, 30, 2005, \$191,340 of the government's bank balance of \$369,908 was exposed to custodial credit risk in that it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the School District's name.

B. Investments

As of June 30, 2005, the School District had the following investments and maturities:

Investment Type	Investment Maturities			
	Carrying Value	Less Than One Year	One to Three Years	Four to Five Years
Federal Farm Credit Bank	\$732,654	\$732,654	\$0	\$0
Federal Home Loan Bank	2,618,916	1,448,916	1,150,000	20,000
Federal Home Loan Mortgage Corporation	1,354,248	950,842	403,406	0
Federal National Mortgage Association	321,060	0	301,060	20,000
Bankers' Acceptance	106,234	106,234	0	0
STAR Ohio	42,699	42,699	0	0
Money Market Mutual Fund	5,000	5,000	0	0
Total	\$5,180,811	\$3,286,345	\$1,854,466	\$40,000

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk: State statute limits the maturity of investments to five years unless matched to a specific obligation or debt of the School District. The School District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issuer. 51% of the School District's investments at June 30, 2005, were in the Federal Home Loan Bank, 26% were in the Federal Home Loan Mortgage Corporation, 14% were in the Federal Farm Credit Bank and 6% were in the Federal National Mortgage Association.

Credit Risk: State statute limits investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investments in the Federal Farm Credit Bank, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's at June 30, 2005. The School District's investment in STAR Ohio was rated AAA by Standard & Poor's at June 30, 2005. The School District's Investment in the banker's acceptance and the money market mutual fund was not rated at June 30, 2005.

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004, and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2005, was \$100,072 in the General Fund, \$22,092 in the Bond Retirement Debt Service Fund, and \$6,101 in the Capital Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$95,112,230	47.67%	\$99,795,730	47.40%
Public Utility – Personal	4,447,540	2.23	4,363,220	2.07
Tangible Personal Property	<u>99,972,853</u>	<u>50.10</u>	<u>106,374,814</u>	<u>50.53</u>
Total Assessed Value	<u>\$199,532,623</u>	<u>100.00%</u>	<u>\$210,533,764</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.90		\$34.90	

NOTE 6 - INCOME TAX

The School District levies a voted tax of one half percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1983, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts credited to the General Fund for fiscal year 2005 were \$493,578.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – INTERFUND TRANSFERS AND ADVANCES

The General Fund had an interfund receivable at June 30, 2005 of \$305,569. The Capital Improvement Capital Projects Fund had an interfund payable at June 30, 2005 of \$275,000 while all other nonmajor funds had interfund payables of \$30,569.

General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds or paying expenditures of other funds due to timing differences in the receiving of grant and property tax monies. When the monies are finally received, those funds reimburse the General Fund for the initial advance.

The General Fund had transfers out to nonmajor funds of \$10,000 during fiscal year 2005. Among non-major funds, the Athletic Fund had transfers out to the Track Resurface Fund of \$2,500 during fiscal year 2005.

Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds and to create a balance to be used in the future.

NOTE 8 – RISK MANAGEMENT

A. Property and Liability

The School District has obtained commercial insurance for the following risks:

- Building and Contents – replacement cost
- Automobile Liability
- General Liability

There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control, and actuarial services to the GRP.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 – PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the CD Plan who become disabled are entitled to only their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations; the same portion that was used to fund pension obligations for fiscal year 2004. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$530,056, \$500,307 and \$523,736, respectively; 83 percent has been contributed fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$6,634 made by the School District and \$15,520 made by the plan members.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 – PENSION PLANS (continued)

B. School Employees Retirement System

The School 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 members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For fiscal year 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate of 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$130,139, \$95,678, and \$94,136, respectively; 55 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, all five members of the Board of Education members have elected Social Security. The Governing Board's liability is 6.2 percent of wages.

NOTE 10 – POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund; the same percentage that was allocated to the Health Care Stabilization Fund for the fiscal year ended June 30, 2004. For the School District, this amount equaled \$40,774 for fiscal year 2005.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 – POSTEMPLOYMENT BENEFITS (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 2.40 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$64,223.

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 fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently eligible to receive health care benefits.

NOTE 11 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time up to 50 days is paid to classified employees and administrators upon termination of employment.

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 216 days for all personnel. Upon retirement with five years of service, or upon separation with twenty years of service at the School District, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for all employees. Upon retirement, payment to the Treasurer and Superintendent is made for 35 percent of accrued, but unused sick leave credit to a maximum of 70 days.

Anna Local School District
Shelby County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 – OTHER EMPLOYEE BENEFITS (continued)

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance through Medical Life to most employees. Medical/surgical and dental benefits are provided by Anthem. Coverage for vision benefits is provided by Vision Service Plan.

C. Deferred Compensation Plan

The Superintendent and the Treasurer participate in the Baird Company Deferred Compensation Plan. The plan was created in accordance with Internal Revenue Code Section 457 (f). The Board of Education contributes \$5,000 each year for each participant. Employer contributions are vested at 50 percent after five years of service and at 100 percent after ten years. All earnings are immediately vested to the participants. Additional voluntary payroll deduction contributions are permitted and are immediately vested. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 12 – LONG-TERM OBLIGATIONS

School Building Construction and Improvement Refunding General Obligation Bonds – On March 1, 1998, the School District issued bonds in the amount of \$9,740,000. The bonds were issued for the purpose of the defeasance of a 1992 School Improvement outstanding bond issue and for the purpose of reconstructing, renovating and expanding the high school building. The bond issue included \$5,935,000 in serial bonds and \$3,085,000 in term bonds. The serial bonds were issued for a twenty-three year period with final maturity on December 1, 2014. These bonds have interest rates ranging from 3.65 to 5.1 percent. The term bonds have a 5.1 percent interest rate with a final maturity on December 1, 2022. The bonds are paid from the Bond Retirement Debt Service Fund.

The balance outstanding on the bonds at June 30, 2004 was \$7,570,000. During fiscal year 2005, \$500,000 was paid on the bonds, leaving an outstanding balance at June 30, 2005 of \$7,070,000. The amount due within one year is \$535,000.

The School District's overall legal debt margin was \$13,415,983 and the unvoted debt margin was \$208,272 at June 30, 2005. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2006	\$535,000	\$349,450	\$884,450
2007	245,000	324,678	569,678
2008	255,000	313,427	568,427
2009	270,000	301,615	571,615
2010	285,000	287,916	572,916
2011 – 2015	1,675,000	1,191,069	2,866,069
2016 – 2020	2,185,000	700,158	2,885,158
2021 – 2023	1,620,000	126,480	1,746,480
Total	<u>\$7,070,000</u>	<u>\$3,594,793</u>	<u>\$10,664,793</u>

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Payments to WOCO are made from the General Fund. The School District paid WOCO \$37,662 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

B. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2005, the School District paid \$789 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio

C. Anna Local Schools Education Foundation

The Anna Education Foundation is a non-profit corporation whose purpose is to provide financial assistance for enhanced educational and/or career opportunities to residents, employees, and current and former students of the School District. The board is made up of nine members, one of which is appointed by the Anna Local School Board. The remaining eight members are elected by the Board of Trustees. Seven of the nine trustees must be residents of the School District. Payments to the Anna Education Foundation are made from the General Fund. The School District did not make any payments to the Anna Education Foundation during the fiscal year. Information on this organization can be obtained from David Richard, who serves as Treasurer, at Post Office Box 475, Anna, Ohio 45302.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS (continued)

D. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2005, the School District did not make any payments to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005

NOTE 14 - INSURANCE PURCHASING POOLS

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

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

B. Shelby County Schools Consortium

The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The consortium acts together to provide health/surgical, dental and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, Anthem and Community National Assurance Company. The Group is governed by an administrative committee consisting of the superintendent from each participating school district and the educational service center. The degree of control exercised by any participating school district is limited to its representation on the committee. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, at 131 North Ludlow Street, Dayton, Ohio 45402.

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 - INSURANCE PURCHASING POOLS (continued)

C. Ohio School Insurance Program

The School District participates in the Ohio School Insurance Program (OSIP), an insurance purchasing pool. The Ohio School Insurance Program (OSIP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSIP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSIP's business and affairs are conducted by a fifteen member Board of Directors consisting of School District superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSIP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSIP and member schools.

NOTE 15 - CONTINGENCIES

The School District receives financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

NOTE 16 - SET-ASIDE CALCULATIONS

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

The following information describes the change in the fiscal year-end set-aside amounts for capital improvements and textbooks/instructional materials.

	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-aside Cash Balance as of June 30, 2004	(\$5,364,448)	(\$249,476)
Current Fiscal Year Set-aside Requirement	172,462	172,462
Current Year Offsets	(1,447,214)	0
Qualifying Disbursements	(26,009)	(106,272)
Total	(\$6,665,209)	(\$183,286)
Set-aside Cash Balance Carried Forward to Future Fiscal Years	(\$6,665,209)	(\$183,286)

Anna Local School District
Shelby County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - SET-ASIDE CALCULATIONS (continued)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements and textbooks/instructional materials set-asides below zero. These extra amounts may be used to reduce the set-aside requirements in future fiscal years.

NOTE 17 – STATE SCHOOL FUNDING DECISION

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “. . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . . “ The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 18 - SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2005, the School District had significant contractual purchase commitments as follows:

<u>Vendor</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/05</u>
Dayton Trane	Elementary Control System	\$19,300	\$0	\$19,300
Buehler Asphalt	Elementary Parking	16,500	0	16,500
Cardinal Bus Sales	Bus	61,600	0	61,600
Prenger Implement	15 laptops	22,884	0	22,884
Totals		<u>\$120,284</u>	<u>\$0</u>	<u>\$120,284</u>

NOTE 19 – ACCOUNTABILITY

A. Fund Balances

The School District had several funds throughout the year with fund deficits.

B. Cash Balances

The School District had several funds throughout the year with deficit cash balances.

We're Ready For Your Future

December 20, 2006

Board of Education
Anna Local School District
Anna, Ohio 45302

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Anna Local School District (the School District) as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 20, 2006, wherein we noted that the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable conditions 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 caused by error or fraud 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 certain matters that we have reported to management of the School District in a separate letter dated December 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings as item 2006-001.

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

Rea & Associates, Inc.

Anna Local School District
Shelby County
Schedule of Findings
Fiscal Years Ended June 30, 2006 and June 30, 2005

FINDING NUMBER 2006-001

Ohio Rev. Code Section 5705.36 allows all local governments to request amended certificates of estimated resources and allows school districts, municipalities, and counties to request amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Estimated receipts for fiscal years 2006 and 2005 were not posted to the USAS accounting system. The lack of estimated receipts posted to the system results in the loss of a valuable management tool and makes it difficult to determine if revenues were in line with expectation and if an amended certificate would have been necessary, during either fiscal year. However, the Official Certificate of Estimated Resources was amended once, in late June, for each fiscal year.

Administration should develop and implement procedures for monitoring budget versus actual revenue figures. This could be performed by posting the estimated revenue amounts, approved by the County Budget Commission through the Official Certificate of Estimated Resources, to the accounting system. The monthly Revenue Account Summary (REVSUM) reports should be generated and then utilized to evaluate whether collections are in line with anticipated revenues and to determine if amendments are necessary. Management should review the requirements which are provided by statute, and refer to the *Ohio Compliance Supplement*.

Anna Local School District
Shelby County
Schedule of Prior Audit Findings
Fiscal Years Ended June 30, 2006 and June 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Ohio Rev. Code Section 5705.36	NO	Repeated as finding 2006-001

Response to Finding

Responsible Contact Person: Dennis Raberding, Treasurer

Finding 2006-001

Per Treasurer, Dennis Raberding: "Sounds reasonable, especially for general fund".



Mary Taylor, CPA
Auditor of State

ANNA LOCAL SCHOOL DISTRICT
SHELBY 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
APRIL 12, 2007