

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Basic Financial Statements

Year Ended June 30, 2006

With

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

January 10, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

Board of Education
Batavia Local School District
800 Bauer Avenue
Batavia, Ohio 45103

We have reviewed the *Independent Auditors' Report* of the Batavia Local School District, Clermont County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 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 Batavia Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 28, 2006

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BATAVIA LOCAL SCHOOL DISTRICT, OHIO

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Batavia Local School District, Ohio:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Batavia Local School District, Ohio (the School District), as of and for the year ended June 30, 2006, 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006 on our consideration of the School District's internal control over financial reporting and on 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 audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 11 and 45 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by 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 opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
October 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Batavia Local School District for the year ended June 30, 2006. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2006 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$7.7 million. However, \$4.2 million is invested in capital assets, net of related debt.
- ✓ In total, net assets increased by \$2.0 million.
- ✓ The School District had \$15.6 million in expenses related to governmental activities; only \$1.1 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$16.4 million, made up primarily of property taxes and State Foundation payments provided the majority of funding for these programs.
- ✓ The General Fund balance increased by approximately \$1.1 million from (\$3,278) at June 30, 2005 to \$1,121,062 at June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The business-type activities of the School District include food services and uniform school supplies.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
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The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

Proprietary funds. The School District utilizes enterprise funds, which report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget of the General Fund.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2006 and 2005:

		<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
		<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
		<u>FY06</u>	<u>FY05</u>	<u>FY06</u>	<u>FY05</u>	<u>FY06</u>	<u>FY05</u>
Current and other assets	\$	11,814,161	9,504,082	332,498	290,119	12,146,659	9,794,201
Capital assets		<u>11,169,377</u>	<u>11,843,388</u>	<u>31,500</u>	<u>39,304</u>	<u>11,200,877</u>	<u>11,882,692</u>
Total assets		<u>22,983,538</u>	<u>21,347,470</u>	<u>363,998</u>	<u>329,423</u>	<u>23,347,536</u>	<u>21,676,893</u>
Long-term debt outstanding		7,533,607	8,187,865	8,713	6,938	7,542,320	8,194,803
Other liabilities		<u>8,012,600</u>	<u>7,641,799</u>	<u>52,637</u>	<u>58,502</u>	<u>8,065,237</u>	<u>7,700,301</u>
Total liabilities		<u>15,546,207</u>	<u>15,829,664</u>	<u>61,350</u>	<u>65,440</u>	<u>15,607,557</u>	<u>15,895,104</u>
Net assets:							
Invested in capital assets, net of debt		4,183,325	4,368,739	31,500	39,304	4,214,825	4,408,043
Restricted:							
For debt service		2,078,289	1,525,093	-	-	2,078,289	1,525,093
Other purposes		252,109	125,331	-	-	252,109	125,331
Unrestricted		<u>923,608</u>	<u>(501,357)</u>	<u>271,148</u>	<u>224,679</u>	<u>1,194,756</u>	<u>(276,678)</u>
Total net assets	\$	<u>7,437,331</u>	<u>5,517,806</u>	<u>302,648</u>	<u>263,983</u>	<u>7,739,979</u>	<u>5,781,789</u>

The increase in current assets of the governmental activities is primarily related to an increase in cash and investments of approximately \$1.7 million as the result of increase in investment earnings and property taxes. The remainder of the increase was in taxes receivable of approximately \$532,000 due to having a full year to collect the property tax levy that was passed in March 2004. Capital assets decreased \$682,000 due to current depreciation exceeding purchases of capital assets.

Other liabilities increased primarily related to an increase in deferred revenue. The majority of taxes receivable are deferred since they are intended to fund the upcoming fiscal year. Thus, as taxes receivable increase, generally deferred revenue will increase as well. The decrease in long-term debt outstanding is due to the scheduled payment on outstanding general obligation bonds.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

B. Governmental and Business-type Activities during fiscal year 2006

The following table presents a condensed summary of the School District's activities during fiscal year 2006 and 2005 and the resulting change in net assets:

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>FY06</u>	<u>FY05</u>	<u>FY06</u>	<u>FY05</u>	<u>FY06</u>	<u>FY05</u>
Revenues:						
Program revenues:						
Charges for services and sales	\$ 132,075	127,150	477,119	440,533	609,194	567,683
Operating grants and contributions	967,079	948,680	296,927	237,541	1,264,006	1,186,221
Capital grants and contributions	<u>8,747</u>	<u>33,438</u>	<u>-</u>	<u>-</u>	<u>8,747</u>	<u>33,438</u>
Total program revenues	<u>1,107,901</u>	<u>1,109,268</u>	<u>774,046</u>	<u>678,074</u>	<u>1,881,947</u>	<u>1,787,342</u>
General revenues:						
Property taxes	8,594,857	7,259,525	-	-	8,594,857	7,259,525
Grants and entitlements	7,392,119	7,282,649	-	-	7,392,119	7,282,649
Investment earnings	196,637	50,825	-	-	196,637	50,825
Miscellaneous	<u>209,572</u>	<u>719,382</u>	<u>-</u>	<u>-</u>	<u>209,572</u>	<u>719,382</u>
Total general revenues	<u>16,393,185</u>	<u>15,312,381</u>	<u>-</u>	<u>-</u>	<u>16,393,185</u>	<u>15,312,381</u>
Total revenues	<u>17,501,086</u>	<u>16,421,649</u>	<u>774,046</u>	<u>678,074</u>	<u>18,275,132</u>	<u>17,099,723</u>
Expenses:						
Instruction	9,412,253	8,969,596	-	-	9,412,253	8,969,596
Support services:						
Pupil	426,388	351,619	-	-	426,388	351,619
Instructional staff	492,922	544,864	-	-	492,922	544,864
Board of Education	116,359	97,994	-	-	116,359	97,994
Administration	1,355,931	1,459,782	-	-	1,355,931	1,459,782
Fiscal	405,201	375,557	-	-	405,201	375,557
Operation and maintenance of plant	1,382,124	1,191,682	-	-	1,382,124	1,191,682
Pupil transportation	1,189,949	1,218,663	-	-	1,189,949	1,218,663
Central	70	1,681	-	-	70	1,681
Non-instructional services	439,522	464,140	-	-	439,522	464,140
Interest and fiscal charges	360,842	367,367	-	-	360,842	367,367
Food services	-	-	600,452	492,989	600,452	492,989
Uniform school supplies	<u>-</u>	<u>-</u>	<u>134,929</u>	<u>85,536</u>	<u>134,929</u>	<u>85,536</u>
Total expenses	<u>15,581,561</u>	<u>15,042,945</u>	<u>735,381</u>	<u>578,525</u>	<u>16,316,942</u>	<u>15,621,470</u>
Change in net assets	\$ <u>1,919,525</u>	<u>1,378,704</u>	<u>38,665</u>	<u>99,549</u>	<u>1,958,190</u>	<u>1,478,253</u>

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Of the total governmental activities revenues of \$17,501,086, \$1,107,901 (6%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 52% (\$8,594,857) comes from property tax levies and 45% (\$7,392,119) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

The School District had significant increases in property taxes due to new construction, and complete or update values in 2005 that were collected on in 2006. Total expenditures increased by 3%, with about \$422,000 in increases in instructional costs and operation of plant & maintenance of plant. Instructional costs increases were directly related to the increase in enrollment and textbooks and materials and supplies needed. The enrollment increases additionally increased uniform school supply expenses and food service costs by approximately \$157,000.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 7% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$9,412,253 but program revenue contributed to fund 10% of those costs. Thus, general revenues of \$8,445,320 were used to support of remainder of the instruction costs.

The School District's governmental activities net assets increased by \$1,919,525 due to due to increases in property tax and investment earnings and little increase in governmental activities expenditures due to vigilant management focus on efficiencies and reducing costs.

Governmental Activities

		<u>Total Cost of Services</u>	<u>Program Revenue</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$	9,412,253	966,933	10%	8,445,320
Support services		5,368,944	33,428	1%	5,335,516
Non-instructional services		439,522	107,540	24%	331,982
Interest and fiscal charges		<u>360,842</u>	<u>-</u>	0%	<u>360,842</u>
Total	\$	<u>15,581,561</u>	<u>1,107,901</u>	<u>7%</u>	<u>14,473,660</u>

Business-type Activities

Net assets of the business-type activities increased by \$38,665 primarily due to normal operations.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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Unaudited

The following table presents the total cost of each of the School District's business segments and the net cost after deducting the revenues generated by each segment. Charges and operating grants paid for 105% of the costs of Food Services.

Business-type Activities					
		Total Cost of Services	Program Revenue	Revenues as a % of Total Costs	Net Cost (Revenue) of Services
Food services	\$	600,452	627,910	105%	(27,458)
School supplies		<u>134,929</u>	<u>146,136</u>	108%	<u>(11,207)</u>
Total	\$	<u>735,381</u>	<u>774,046</u>	<u>105%</u>	<u>(38,665)</u>

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has two major governmental funds: the General Fund and Debt Service Fund. Assets of these two funds comprise \$11,404,881 (97%) of the total \$11,814,161 governmental funds assets.

General Fund. Fund balance at June 30, 2006 was \$1,121,062 , with an unreserved deficit fund balance of (\$347,214). The primary reason for the increase in fund balance of \$1,124,340 was due to the conditions noted above under governmental activities.

Debt Service Fund. Fund balance at June 30, 2006 was \$2,055,999. The Debt Service Fund is used to accumulate resources to pay general obligation bonds. The increase in fund balance of \$541,076 is the result of tax revenues exceeding the annual required debt service payments. The remaining outstanding general obligation bonds will be paid over the next sixteen years.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. In the final budget of the School District, tax revenue collected in the fiscal year was more than originally projected due to tangible personal property changes, real estate updates and new construction as well as the elimination of the State reimbursement of homestead and rollback reductions for commercial and industrial entities eliminated and being paid directly by these entities as taxes. Tuition and fees were less than projected as we had less court placed students that we educated thus reducing tuition paid from other districts. Investment earnings increased due to rise in interest rates. Actual expenditures were more in special education than the original budget due to additional services provided for special need students.

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2006, the School District had \$11,200,877 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 4 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

		<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
		<u>FY06</u>	<u>FY05</u>	<u>FY06</u>	<u>FY05</u>	<u>FY06</u>	<u>FY05</u>
Land	\$	1,230,447	1,230,447	-	-	1,230,447	1,230,447
Land improvements		1,378,051	1,512,742	-	-	1,378,051	1,512,742
Buildings and improvements		7,586,154	7,970,452	-	-	7,586,154	7,970,452
Equipment and furniture		112,872	129,173	31,500	39,304	144,372	168,477
Vehicles		<u>861,853</u>	<u>1,000,574</u>	<u>-</u>	<u>-</u>	<u>861,853</u>	<u>1,000,574</u>
Total	\$	<u>11,169,377</u>	<u>11,843,388</u>	<u>31,500</u>	<u>39,304</u>	<u>11,200,877</u>	<u>11,882,692</u>

Debt

The School District paid the required scheduled principal payment of \$390,000 on its general obligation school improvement bonds during the fiscal year. The total general obligation bonds outstanding at year-end were \$5,845,000 with \$127,214 due within one year. The School District's general obligation bonds mature December 1, 2022. See Note 9 to the financial statements.

ECONOMIC FACTORS

A challenge facing the School District is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The passage of the State of Ohio's biennial budget bill (HB66) revised the tax law accelerating the phase out of tangible personal property tax. However, it included a hold harmless provision that will reimburse the School District within the first years (2006-2010) of cost revenue phasing out the reimbursement in the (7) subsequent years 2011-2017.

The School District is projecting an increase in enrollment and the current enrollment is at 2,042 students. The District not only began open enrollment this school year 2006-2007, but five large residential developments with tax increment financing are either underway or are scheduled to begin shortly.

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Another factor facing the School District is the rising cost of health benefits. The School District has projected an increase of 10% in the next year. Other factors include cost of gas to heat the buildings and the cost of fuel for school buses to transport students.

Many non-controllable factors will determine the financial future of the School District such as the stability of the economy, inflation, enrollment projections and the impact of the federal and state legislation, "No Child Left Behind", and the State's ability to maintain or increase educational funding.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Batavia Local School District, 800 Bauer Avenue, Batavia, Ohio 45103.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 3,459,626	287,899	3,747,525
Receivables:			
Taxes	8,244,454	-	8,244,454
Accounts	31,474	10,705	42,179
Intergovernmental	-	26,611	26,611
Supplies inventory	-	7,283	7,283
Restricted cash and investments	78,607	-	78,607
Nondepreciable capital assets	1,230,447	-	1,230,447
Depreciable capital assets, net	9,938,930	31,500	9,970,430
Total assets	<u>22,983,538</u>	<u>363,998</u>	<u>23,347,536</u>
Liabilities:			
Accounts payable	82,540	5,231	87,771
Accrued wages and benefits	1,180,459	34,315	1,214,774
Intergovernmental payable	324,123	13,091	337,214
Unearned revenue	6,400,637	-	6,400,637
Accrued interest payable	24,841	-	24,841
Noncurrent liabilities:			
Due within one year	526,110	726	526,836
Due within more than one year	7,007,497	7,987	7,015,484
Total liabilities	<u>15,546,207</u>	<u>61,350</u>	<u>15,607,557</u>
Net Assets:			
Invested in capital assets, net of related debt	4,183,325	31,500	4,214,825
Restricted for:			
Debt service	2,078,289	-	2,078,289
Other purposes	252,109	-	252,109
Unrestricted	923,608	271,148	1,194,756
Total net assets	<u>\$ 7,437,331</u>	<u>302,648</u>	<u>7,739,979</u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 6,815,897	24,535	175,169	-	\$ (6,616,193)	-	(6,616,193)
Special education	2,488,095	-	767,229	-	(1,720,866)	-	(1,720,866)
Adult/continuing	108,261	-	-	-	(108,261)	-	(108,261)
Support services:							
Pupil	426,388	-	-	-	(426,388)	-	(426,388)
Instructional staff	492,922	-	3,014	-	(489,908)	-	(489,908)
Board of Education	116,359	-	-	-	(116,359)	-	(116,359)
Administration	1,355,931	-	-	-	(1,355,931)	-	(1,355,931)
Fiscal	405,201	-	-	-	(405,201)	-	(405,201)
Operation and maintenance of plant	1,382,124	-	21,667	-	(1,360,457)	-	(1,360,457)
Pupil transportation	1,189,949	-	-	8,747	(1,181,202)	-	(1,181,202)
Central	70	-	-	-	(70)	-	(70)
Non-instructional services:							
Extracurricular activities	439,522	107,540	-	-	(331,982)	-	(331,982)
Interest on long-term debt	360,842	-	-	-	(360,842)	-	(360,842)
Total Governmental Activities	<u>15,581,561</u>	<u>132,075</u>	<u>967,079</u>	<u>8,747</u>	<u>(14,473,660)</u>	<u>-</u>	<u>(14,473,660)</u>
Business-Type Activities:							
Food Service	600,452	330,983	296,927	-	-	27,458	27,458
Uniform School Supplies	<u>134,929</u>	<u>146,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,207</u>	<u>11,207</u>
Total Business-Type Activities	<u>735,381</u>	<u>477,119</u>	<u>296,927</u>	<u>-</u>	<u>-</u>	<u>38,665</u>	<u>38,665</u>
	<u>\$ 16,316,942</u>	<u>609,194</u>	<u>1,264,006</u>	<u>8,747</u>	<u>(14,473,660)</u>	<u>38,665</u>	<u>(14,434,995)</u>
General Revenues:							
Property taxes, levied for general purposes					7,455,599	-	7,455,599
Property taxes, levied for debt services					1,139,258	-	1,139,258
Grants and entitlements not restricted to specific programs					7,392,119	-	7,392,119
Investment earnings					196,637	-	196,637
Miscellaneous					<u>209,572</u>	<u>-</u>	<u>209,572</u>
Total general revenues					<u>16,393,185</u>	<u>-</u>	<u>16,393,185</u>
Change in net assets					1,919,525	38,665	1,958,190
Net assets beginning of year					<u>5,517,806</u>	<u>263,983</u>	<u>5,781,789</u>
Net assets end of year					<u>\$ 7,437,331</u>	<u>302,648</u>	<u>7,739,979</u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,240,998	1,837,799	380,829	3,459,626
Restricted cash	78,607	-	-	78,607
Receivables:				
Taxes	7,182,646	1,061,808	-	8,244,454
Accounts	3,023	-	28,451	31,474
Total assets	<u>8,505,274</u>	<u>2,899,607</u>	<u>409,280</u>	<u>11,814,161</u>
Liabilities:				
Accounts payable	45,126	-	37,414	82,540
Accrued wages and benefits	1,137,685	-	42,774	1,180,459
Intergovernmental payable	318,971	-	5,152	324,123
Compensated absences payable	19,084	-	-	19,084
Deferred revenue	5,863,346	843,608	-	6,706,954
Total liabilities	<u>7,384,212</u>	<u>843,608</u>	<u>85,340</u>	<u>8,313,160</u>
Fund Balances:				
Reserved for:				
Encumbrances	70,369	-	24,169	94,538
Budget stabilization	78,607	-	-	78,607
Property taxes	1,319,300	218,200	-	1,537,500
Unreserved, reported in:				
General Fund	(347,214)	-	-	(347,214)
Debt Service Fund	-	1,837,799	-	1,837,799
Special Revenue Funds	-	-	299,771	299,771
Total fund balances	<u>1,121,062</u>	<u>2,055,999</u>	<u>323,940</u>	<u>3,501,001</u>
Total liabilities and fund balances	<u>\$ 8,505,274</u>	<u>2,899,607</u>	<u>409,280</u>	<u>11,814,161</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances	\$	3,501,001
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,169,377
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Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		306,317
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	5,845,000		
Compensated absences	528,471		
Lease-purchase agreement	1,112,738		
Capital lease payable	28,314		
Accrued interest payable	<u>24,841</u>		
Total			<u>(7,539,364)</u>

Net Assets of Governmental Activities	\$	<u>7,437,331</u>
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BATAVIA LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,391,753	1,128,796	-	8,520,549
Tuition and fees	24,535	-	-	24,535
Interest	196,637	-	-	196,637
Intergovernmental	7,276,606	124,260	967,079	8,367,945
Other local revenues	82,514	-	234,598	317,112
Total revenues	<u>14,972,045</u>	<u>1,253,056</u>	<u>1,201,677</u>	<u>17,426,778</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,379,940	-	87,612	6,467,552
Special education	1,762,543	-	740,191	2,502,734
Other instruction	109,626	-	-	109,626
Support services:				
Pupil	428,090	-	6,281	434,371
Instructional staff	486,327	-	12,916	499,243
Board of Education	116,359	-	-	116,359
Administration	1,381,947	-	15,610	1,397,557
Fiscal	407,767	-	1,425	409,192
Operation and maintenance of plant	1,269,917	-	-	1,269,917
Pupil transportation	1,024,769	-	-	1,024,769
Central	70	-	-	70
Non-instructional services:				
Extracurricular activities	246,848	-	113,675	360,523
Capital outlay	94,385	-	36,007	130,392
Debt Service:				
Principal	128,873	390,000	-	518,873
Interest and fiscal charges	40,520	321,980	-	362,500
Total expenditures	<u>13,877,981</u>	<u>711,980</u>	<u>1,013,717</u>	<u>15,603,678</u>
Excess of revenues over (under) expenditures	<u>1,094,064</u>	<u>541,076</u>	<u>187,960</u>	<u>1,823,100</u>
Other financing sources (uses):				
Proceeds from lease-purchase agreement	30,276	-	-	30,276
Total other financing sources (uses):	<u>30,276</u>	<u>-</u>	<u>-</u>	<u>30,276</u>
Net change in fund balance	1,124,340	541,076	187,960	1,853,376
Fund balance, beginning of year	(3,278)	1,514,923	135,980	1,647,625
Fund balance, end of year	\$ <u>1,121,062</u>	<u>2,055,999</u>	<u>323,940</u>	<u>3,501,001</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	1,853,376
<p>Amounts reported for governmental activities in the statement of activities are different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlay		30,276
Depreciation expense		(704,287)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		390,000
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		128,873
Proceeds from long-term debt, such as lease-purchase agreements provides current financial resources to governmental funds but has no effect on net assets		(30,276)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1,658
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		175,597
Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.		<u>74,308</u>
Change in Net Assets of Governmental Activities	\$	<u>1,919,525</u>

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2006

	<u>Nonmajor Enterprise Funds</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 287,899
Receivables:	
Accounts	10,705
Intergovernmental	26,611
Supplies inventory	<u>7,283</u>
Total current assets	<u>332,498</u>
Noncurrent assets:	
Capital assets, net	<u>31,500</u>
Total assets	<u>363,998</u>
Liabilities:	
Current liabilities:	
Accounts payable	5,231
Accrued wages	34,315
Intergovernmental payable	<u>13,091</u>
Total current liabilities	<u>52,637</u>
Noncurrent liabilities:	
Compensated absences	<u>8,713</u>
Total liabilities	<u>61,350</u>
Net Assets:	
Invested in capital assets, net of related debt	31,500
Unrestricted	<u>271,148</u>
Total net assets	<u>\$ 302,648</u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2006

	Nonmajor Enterprise Funds
Operating revenues:	
Charges for services	\$ <u>477,119</u>
Total operating revenues	<u>477,119</u>
Operating expenses:	
Salaries and wages	184,617
Fringe benefits	88,061
Contractual services	33,664
Materials and supplies	421,235
Depreciation	<u>7,804</u>
Total operating expenses	<u>735,381</u>
Operating loss	(258,262)
Nonoperating revenues:	
Operating grants	290,437
Interest income	<u>6,490</u>
Total nonoperating revenues	<u>296,927</u>
Net income	38,665
Net assets, beginning of year	<u>263,983</u>
Net assets, end of year	\$ <u><u>302,648</u></u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2006

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities:	
Cash received from customers	\$ 469,570
Cash payments for personal services	(281,888)
Cash payments for contract services	(32,019)
Cash payments for supplies and materials	(336,730)
Cash payments for other expenses	<u>(2,236)</u>
Net cash used by operating activities	<u>(183,303)</u>
Cash flows from noncapital financing activities:	
Cash received from operating grants	<u>210,185</u>
Cash flows from investing activities:	
Investment income	<u>6,490</u>
Net increase in cash and cash equivalents	33,372
Cash and cash equivalents at beginning of year	<u>254,527</u>
Cash and cash equivalents at end of year	\$ <u><u>287,899</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(258,262)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	7,804
Donated commodities used	77,169
Changes in assets and liabilities:	
Accounts receivable	(7,549)
Accounts payable	5,120
Supplies inventory	1,625
Accrued wages and benefits	(5,603)
Intergovernmental payable	(5,382)
Compensated absences payable	<u>1,775</u>
Net cash used by operating activities	\$ <u><u>(183,303)</u></u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Net Assets

Fiduciary Funds

June 30, 2006

	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Equity in pooled cash and cash equivalents	\$ 24,900	31,492
Total assets	<u>24,900</u>	<u>31,492</u>
 LIABILITIES		
Due to student groups	<u>-</u>	31,492
Total liabilities	<u>-</u>	<u>31,492</u>
 NET ASSETS		
Held in trust	\$ <u>24,900</u>	

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2006

		Private Purpose Trusts
Additions:		
Contributions	\$	14,551
Interest		<u>178</u>
Total additions		<u>14,729</u>
Deductions:		
Community gifts, awards and scholarships		<u>15,419</u>
Total deductions		<u>15,419</u>
Change in net assets		(690)
Net assets, beginning of year		<u>25,590</u>
Net assets, end of year	\$	<u><u>24,900</u></u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Batavia Local School District (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected Board of Education (five members) and is responsible for the education of the residents of the School District. The Board controls the School District's four instructional support facilities providing education to approximately 1,900 students.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the 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. The School District has no component units.

The School District is associated with four organizations, two of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include Hamilton Clermont Cooperative Association/Unified Purchasing Association, the Great Oaks Institute of Technology and Career Development, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 11 and 12 to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

B. Basis of Presentation

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financials activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements Fund financial statements report detailed information about the School District. The focus of governmental and proprietary financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

BATAVIA LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The general fund 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.

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

Proprietary funds are used to account for the School District's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost of providing goods and services to the general public be financed or recovered primarily through user charges. The School District has no major proprietary funds.

Fiduciary Funds report on net assets and changes in net assets. The School District's fiduciary funds consist of a private-purpose trust fund and agency funds. The School District's only private-purpose trust fund accounts for scholarship programs for students. These assets are not available for the School District's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made. The modified accrual basis of accounting is used by the governmental funds and agency funds.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt as well as expenditures related to compensated absences which are recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, proprietary funds and private-purpose trust fund utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues - Exchange and Non-exchange transactions. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2006, which are intended to finance fiscal year 2007 operations, have been recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

E. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Clermont County Budget Commission for rate determination.

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

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control.

BATAVIA LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. **Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements. During fiscal year 2006, the School District's investments were limited to certificates of deposit.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. At June 30, 2006, the fair value of investments approximates cost.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those funds individually authorized by Board resolution. Interest is allocated to these funds based on average monthly cash balance.

For purposes of the statement of cash flows, the proprietary funds' portion of equity in pooled cash and cash equivalents is considered to be liquid because the proprietary fund portion of the pool can be accessed without prior notice or penalty.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

G. Inventory

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

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type columns in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	15 years
Building improvements	20 years
Equipment and furniture other than vehicles	3-20 years
Vehicles	10 years

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

K. Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, budget reserve set-asides and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

N. Estimates

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

2. DEPOSITS

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the 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;

BATAVIA LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. However, protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the financial institution holding the deposits. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific financial institution. At year-end, \$3,882,337 of the School District's bank balance of \$3,987,262 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

3. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from the Clermont County Auditor, who 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. Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$1,319,300 in the General Fund and \$218,200 in the Debt Service Fund. The assessed values upon which fiscal year 2006 taxes were collected are:

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 167,759,780	80.69%	193,483,110	83.49%
Public Utility	7,468,150	3.59%	7,555,660	3.26%
Tangible Personal Property	32,685,077	15.72%	30,694,649	13.25%
Total Assessed Value	\$ 207,913,007	100.00%	231,733,419	100.00%
Tax rate per \$1,000 of assessed valuation	\$55.00		\$54.30	

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance 7/1/05	Additions	Disposals	Balance 6/30/06
Governmental Activities				
Nondepreciable:				
Land	\$ 1,230,447	-	-	1,230,447
Depreciable:				
Land improvements	2,936,525	-	-	2,936,525
Buildings and improvements	13,499,491	-	-	13,499,491
Equipment and furniture	690,027	-	-	690,027
Vehicles	1,860,115	30,276	-	1,890,391
Subtotal	18,986,158	30,276	-	19,016,434
Totals at historical cost	20,216,605	30,276	-	20,246,881
Less accumulated depreciation:				
Land improvements	1,423,783	134,691	-	1,558,474
Buildings and improvements	5,529,039	384,298	-	5,913,337
Equipment and furniture	560,854	16,301	-	577,155
Vehicles	859,541	168,997	-	1,028,538
Total accumulated depreciation	8,373,217	704,287	-	9,077,504
Capital assets, net	\$ 11,843,388	(674,011)	-	11,169,377

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Depreciation expense was charged to functions as follows:

Instruction:		
Regular	\$	436,039
Support services:		
Instructional staff		2,060
Operation and maintenance of plant		16,857
Pupil transportation		168,997
Extracurricular activities		<u>80,334</u>
 Total depreciation expense	\$	<u><u>704,287</u></u>

	Balance 7/1/05	Additions	Disposals	Balance 6/30/06
<i>Business-type Activities:</i>				
Furniture and equipment	\$ 130,641	-	-	130,641
Less accumulated depreciation	<u>91,337</u>	<u>7,804</u>	<u>-</u>	<u>99,141</u>
 Capital assets, net	 \$ 39,304	 <u>(7,804)</u>	 <u>-</u>	 <u>31,500</u>

Depreciation expense of \$7,804 was charged to the food services segment.

5. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with commercial carriers for property and fleet insurance, liability insurance and inland marine coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage in the last year.

BATAVIA LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). 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 & Co. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2006, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 12), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

6. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting SERS, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by 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 approximately \$265,000, \$258,000, and \$276,000 respectively. Approximately 31% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. The current portion of the unpaid contribution for fiscal year 2006 is recorded as a liability within the respective funds and full liability is recorded on the government-wide financial statements.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

State Teachers Retirement System

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

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% 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 DC Plan who become disabled are entitled only to 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.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were approximately \$940,000, \$935,000, and \$980,000, respectively. Approximately 84% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is recorded as a liability in the respective funds.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Social Security System

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. Members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

7. POSTEMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2005, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$67,000 during fiscal year 2006. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254.8 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400.

The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2005 were \$178.2 million and the target level was \$238.2 million. At June 30, 2005, SERS' net assets available for payment of health care benefits was \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, was approximately \$65,000 during the 2006 fiscal year.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

8. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of 1.25 days per month. Sick leave may be accumulated up to maximum of 256 days for teachers, 235 days for classified staff and unlimited days for administrators. Upon retirement, payment is made for 25% of the employee's accumulated sick leave up to a maximum of 64 days for teachers and administrators, and 58 for classified employees.

9. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Principal Outstanding 7/1/05	Additions	Reductions	Principal Outstanding 6/30/06	Amounts Due in One Year
<i>Governmental Activities:</i>					
General obligation bonds	\$ 6,235,000	-	(390,000)	5,845,000	127,214
Lease-purchase agreements	1,188,578	30,276	(106,116)	1,112,738	278,017
Capital lease payable	51,071	-	(22,757)	28,314	24,149
Compensated absences	713,216	73,310	(238,971)	547,555	96,730
Total	8,187,865	103,586	(757,844)	7,533,607	526,110
<i>Business-type Activities:</i>					
Compensated absences	\$ 6,938	726	1,049	8,713	726

Batavia Junior High School Addition General Obligation Bonds - In 1998, the School District issued \$9,150,000 in voted general obligation bonds for the purpose of an addition and improvements to the junior high school building. The bonds were issued for a 25-year period paying 3.5-13.9% interest with final maturity at December 1, 2022 and will be retired from the Debt Service Fund.

In 2002, 2003 and 2005, the School District entered into lease-purchase agreements for the purchase of land for a bus garage and the purchase of buses, respectively. The School District is leasing the land and buses from Rickenbacker Port Authority which assigned U.S. Bank as trustee and transferred rights, title and interest in the land and buses to the trustee. The School District is required to make monthly payments with interest at a variable interest rate based on the TBMA Index. The leases are renewable annually and expire in 2007, 2013 and 2009, respectively. The School District intends to renew the lease annually. Payments will be made from the General Fund.

BATAVIA LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

In 2006, the School District entered into a lease-purchase agreement for the purchase of equipment for the middle school. The School District is leasing equipment from the National City Commercial Capital Corporation. The School District is required to make monthly payments with interest at 5.15%. The lease is renewable annually and expires in 2008. The School District intends to renew the lease annually. Payments will be made from the General Fund.

Capital assets acquired by these lease-purchase agreements have been capitalized in the amount of \$1,470,000 which is equal to the present value of the future minimum lease payments at the time of the acquisition. A corresponding liability was recorded for the lease-purchase agreements.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$15,011,008 with an unvoted debt margin of \$231,733 at June 30, 2006.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$	127,214	562,536	689,750
2008		109,013	575,737	684,750
2009		95,140	589,610	684,750
2010		84,250	605,500	689,750
2011		72,968	616,782	689,750
2012-2016		1,401,415	2,031,444	3,432,859
2017-2021		2,660,000	754,313	3,414,313
2022-2023		<u>1,295,000</u>	<u>73,828</u>	<u>1,368,828</u>
Total	\$	<u>5,845,000</u>	<u>5,809,750</u>	<u>11,654,749</u>

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

The following is a schedule of future minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2006:

Fiscal Year <u>Ending June 30,</u>	
2007	\$ 303,011
2008	135,551
2009	126,951
2010	75,666
2011	70,250
2012-13	<u>496,900</u>
Total	1,208,329
Less amount representing interest	<u>(95,591)</u>
Present value of minimum lease payments	\$ <u><u>1,112,738</u></u>

10. CAPITALIZED LEASES

The School District is obligated under certain leases accounted for as capital leases. The cost of the equipment acquired by capital leases is \$109,000. The future minimum lease payments under capital leases as of June 30, 2006 are as follows:

Fiscal Year <u>Ending June 30,</u>	
2007	\$ 28,182
2008	<u>6,295</u>
Total	34,477
Less amount representing interest	<u>(6,163)</u>
Present value of minimum lease payments	\$ <u><u>28,314</u></u>

11. JOINTLY GOVERNED ORGANIZATIONS

The Hamilton Clermont Cooperative Association

The School District is a participant in a two-county consortium of school districts that operate the Hamilton/Clermont Cooperative Association (H/CCA). H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. The School District paid approximately \$35,000 for services provided during the fiscal year. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati 45231.

BATAVIA LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

Year Ended June 30, 2006

The Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Great Oaks. To obtain financial information, write to Great Oaks at 3254 East Kemper Road, Cincinnati, Ohio 45241.

12. INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Clermont County Health Trust

The Clermont County Health Trust (the Trust), an insurance purchasing pool, is a health trust formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. The School District pays premiums to a third party administrator which in turns buys the insurance policies from various insurance companies. Upon termination, the School District shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The School District may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P. O. Box 526, Middletown, Ohio 45042.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

13. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.

Litigation

The School District is party to legal proceedings and is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

14. REQUIRED SET-ASIDES

The School District is required by State Statute to annually set aside in the general fund an amount based on the statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District.

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

		<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside balance as of June 30, 2005	\$	(37,080)	-	78,607
Current year set-aside requirement		266,340	266,340	-
Less qualifying disbursements and offsets		<u>(394,092)</u>	<u>(555,285)</u>	<u>-</u>
Total		<u>(164,832)</u>	<u>(288,945)</u>	<u>78,607</u>
Balance carried to FY2007		<u>(164,832)</u>	<u>-</u>	<u>78,607</u>
Cash balance as of June 30, 2006	\$	<u>-</u>	<u>-</u>	<u>78,607</u>

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Since the School District had offsets and qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, these extra amounts may be used to reduce the set aside requirements of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirements of future years.

BATAVIA LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	6,400,000	7,323,053	7,323,053	-
Tuition and fees	32,500	24,535	24,535	-
Interest	100,000	196,648	196,648	-
Intergovernmental	7,620,000	7,276,606	7,276,606	-
Other local revenues	117,500	67,268	67,268	-
Total revenues	<u>14,270,000</u>	<u>14,888,110</u>	<u>14,888,110</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,568,045	6,444,174	6,444,174	-
Special education	1,536,706	1,861,956	1,861,956	-
Other instruction	123,896	110,516	110,516	-
Support services:				
Pupil	349,310	436,860	436,860	-
Instructional staff	625,008	535,089	535,089	-
Board of Education	106,930	107,605	107,605	-
Administration	1,526,920	1,413,262	1,413,262	-
Fiscal	402,742	404,094	404,094	-
Operation and maintenance of plant	1,288,099	1,240,625	1,240,625	-
Pupil transportation	1,222,226	1,067,477	1,067,477	-
Central	681	70	70	-
Non-instructional services:				
Extracurricular activities	294,970	258,600	258,600	-
Capital outlay	92,000	154,719	154,719	-
Total expenditures	<u>14,137,533</u>	<u>14,035,047</u>	<u>14,035,047</u>	<u>-</u>
Excess of revenues over expenditures	132,467	853,063	853,063	-
Other financing sources (uses):				
Other sources	14,790	14,790	14,790	-
Total other financing sources (uses):	<u>14,790</u>	<u>14,790</u>	<u>14,790</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other (uses)	147,257	867,853	867,853	-
Fund balance, beginning of year	298,819	298,819	298,819	
Prior year encumbrances appropriated	61,085	61,085	61,085	
Fund balance, end of year	<u>507,161</u>	<u>1,227,757</u>	<u>1,227,757</u>	

See accompanying notes to required supplemental information.

BATAVIA LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2006

Note A Budgetary Basis of Accounting

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 1,124,340
Increase / (decrease):	
Due to revenues	(83,935)
Due to expenditures	(103,435)
Due to other sources (uses)	(15,486)
Due to encumbrances	<u>(53,631)</u>
Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis	\$ <u>867,853</u>

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
Food Donation	n/a	10.550	\$ 77,169	77,169
National School Lunch Program	LLP4	10.555	<u>202,401</u>	<u>202,401</u>
Total Nutrition Cluster			<u>279,570</u>	<u>279,570</u>
Total U.S. Department of Agriculture			<u>279,570</u>	<u>279,570</u>
 <u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1S1	84.010	331,585	308,124
Special Education - Grants to States	6BSF	84.027	388,866	388,289
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	10,778	9,901
State Grants for Innovative Programs	C2S1	84.298	5,474	8,000
Education Technology State Grants	TJS1	84.318	6,033	4,618
Improving Teacher Quality State Grants	TRS1	84.367	91,440	91,825
Hurricane Relief Grant		84.938	<u>3,000</u>	<u>3,000</u>
Total U.S. Department of Education			<u>837,176</u>	<u>813,757</u>
Total Federal Awards			\$ <u>1,116,746</u>	<u>1,093,327</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards (the Schedule) is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - NUTRITION CLUSTER

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**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***

To the Board of Education
Batavia Local School District, Ohio:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Batavia Local School District, Ohio (the School District) as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 13, 2006. We conducted our audit 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 audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2006-1.

We also noted certain additional matters that we reported to management of the School District in a separate letter dated October 13, 2006.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
October 13, 2006



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Batavia Local School District, Ohio:

Compliance

We have audited the compliance of Batavia Local School District, Ohio (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
October 13, 2006

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified that are not considered to be material weaknesses?	no
Noncompliance material to financial statements noted?	yes

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified not considered to be material weaknesses?	no
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of major programs:

CFDA 84.027 – Special Education - Grants to States

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

2006-1– Encumbering Compliance

Ohio Revised Code Section, 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Education can authorize the drawing of a warrant. The Board of Education has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the Board of Education upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

In our sample of sixty cash disbursements, we found thirteen disbursements that did not have certification prior to the obligation date and neither of the two exceptions provided above were utilized. Failure to certify the availability of funds and encumber appropriation for the appropriate amount can result in overspending funds and negative cash balances. The Treasurer should certify the availability of funds for expenditures and consider implementing the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Revised Code Section 5705.41(D).

Management's Response: *The School District will review its practices and procedures and implement additional measures to comply with Ohio Revised Code 5705.41(D). The School District will consider using the Then and Now Certificate for amounts of less than \$3,000.*

Section III - Federal Award Findings and Questioned Costs

None.

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Schedule of Prior Audit Findings

Year Ended June 30, 2006

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance for major federal programs were reported in the prior year.



**Auditor of State
Betty Montgomery**

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BATAVIA LOCAL SCHOOL DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 16, 2007**