

Georgetown Exempted Village School District

Brown County

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

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Mary Taylor, CPA
Auditor of State

Board of Education
Georgetown Exempted Village School District
1043 Mt. Orab Pike
Georgetown, OH 45121-8440

We have reviewed the *Independent Auditor's Report* of the Georgetown Exempted Village School District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 to 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 Georgetown Exempted Village School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 19, 2007

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GEORGETOWN EXEMPTED VILLAGE SCHOOL DISTRICT
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Georgetown Exempted Village School District
1043 Mt. Orab Pike
Georgetown, Ohio 45121

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Georgetown Exempted Village School District (the School District), Brown County, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

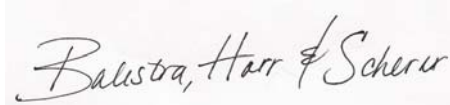
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund 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 July 20, 2007, on our consideration of the 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 on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Georgetown Exempted Village School District
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

July 20, 2007

Georgetown Exempted Village School District

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

The discussion and analysis of the Georgetown Exempted Village School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$954,059.
- General revenues accounted for \$8,151,611 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$1,803,776 or 18% of total revenues of \$9,955,387.
- The School District had \$9,001,328 in expenses related to governmental activities; \$1,803,776 of these expenses were offset by program specific charges for services, and grants and contributions. The remainder of these expenses were offset by general revenues.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Georgetown Exempted Village School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

Georgetown Exempted Village School District

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide financial statements.

Georgetown Exempted Village School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1
Net Assets

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2006 | 2005 |
| Assets | | |
| Current and Other Assets | \$9,951,971 | \$24,701,359 |
| Capital Assets | 26,598,735 | 10,217,775 |
| Total Assets | <u>36,550,706</u> | <u>34,919,134</u> |
| Liabilities | | |
| Long-term Liabilities | 5,601,953 | 5,556,434 |
| Current and Other Liabilities | 3,911,226 | 3,279,232 |
| Total Liabilities | <u>9,513,179</u> | <u>8,835,666</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 21,567,589 | 7,621,259 |
| Restricted | 6,103,369 | 19,595,041 |
| Unrestricted (Deficit) | (633,431) | (1,132,832) |
| Total Net Assets | <u>\$27,037,527</u> | <u>\$26,083,468</u> |

The School District's capital assets increased \$16.4 million due primarily to the addition of construction in progress related to the classroom facilities project. Current and Other Assets decreased due to the reduction of receivable, the payoff of bond anticipation notes, and capital outlay for the classroom facilities project. Total net assets of the District as a whole increased \$954,059. Invested in Capital Assets increased \$13.9 million and restricted net assets decreased \$13.5 million primarily due to the capital outlay for the classroom facilities project.

Georgetown Exempted Village School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 as compared to 2005.

Table 2
Changes in Net Assets

| | Governmental Activities | |
|---|----------------------------|---------------|
| | 2006 | 2005 |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 625,459 | \$ 613,736 |
| Operating Grants and Contributions | 1,178,317 | 1,233,607 |
| Total Program Revenues | 1,803,776 | 1,847,343 |
| General Revenues | | |
| Property Taxes | 2,338,327 | 2,145,565 |
| Grants and Entitlements not Restricted to Specific Programs | 4,762,753 | 4,325,271 |
| Grants and Entitlements Restricted for Classroom Facilities | 423,080 | 755,311 |
| Gifts and Donations not Restricted to Specific Programs | 1,975 | 3,619 |
| Investment Earnings | 359,168 | 60,515 |
| Miscellaneous | 266,308 | 325,734 |
| Total General Revenues | 8,151,611 | 7,616,015 |
| Total Revenues | 9,955,387 | 9,463,358 |
| Program Expenses | | |
| Instruction: | | |
| Regular | 3,966,795 | 3,751,718 |
| Special | 1,082,690 | 1,053,850 |
| Vocational | 119,959 | 107,671 |
| Other | - | 10,430 |
| Support Services: | | |
| Pupil | 226,522 | 213,264 |
| Instructional Staff | 364,953 | 331,618 |
| Board of Education | 425,266 | 300,875 |
| Administration | 656,871 | 654,499 |
| Fiscal | 282,837 | 290,447 |
| Operation and Maintenance of Plant | 660,124 | 584,525 |
| Pupil Transportation | 466,667 | 398,588 |
| Operation of Non-Instructional Services | 368,478 | 295,138 |
| Extracurricular Activities | 153,325 | 138,353 |
| Interest and Fiscal Charges | 226,841 | 280,277 |
| Total Expenses | 9,001,328 | 8,411,253 |
| Increase in Net Assets | 954,059 | 1,052,105 |
| Net Assets, Beginning of Year | 26,083,468 | 25,031,363 |
| Net Assets, End of Year | \$ 27,037,527 | \$ 26,083,468 |

Grants and entitlements not restricted to specific programs made up 47.8% of total revenues while property taxes made up 23.5% of total revenues. General revenues made up 81.9% of total revenues. Program revenues made up 18.1% of total revenues. Investment earnings were up substantially from 2005 as cash balances were significantly higher for portions of the year prior to disbursement for the classroom facilities project.

Georgetown Exempted Village School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited*

Regular instruction made up 44.1% of total expenses, while special instruction and administration made up 12.0% and 7.3% of total expenses respectively. Special Instruction costs increased due to the increase in grant monies received by the district for 2006.

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | 2006 | | 2005 | |
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$3,966,795 | \$ 3,678,639 | \$ 3,751,718 | \$ 3,205,069 |
| Special | 1,082,690 | 544,036 | 1,053,850 | 727,393 |
| Vocational | 119,959 | 113,948 | 107,671 | 101,773 |
| Other | - | - | 10,430 | 3,397 |
| Support Services: | | | | |
| Pupil | 226,522 | 214,876 | 213,264 | 201,836 |
| Instructional Staff | 364,953 | 330,413 | 331,618 | 273,846 |
| Board of Education | 425,266 | 402,191 | 300,875 | 281,116 |
| Administration | 656,871 | 620,863 | 654,499 | 615,526 |
| Fiscal | 282,837 | 264,720 | 290,447 | 273,187 |
| Operation and Maintenance of Plant | 660,124 | 624,383 | 584,525 | 539,035 |
| Pupil Transportation | 466,667 | 210,596 | 398,588 | 148,245 |
| Operation of Non-Instructional Services | 368,478 | (18,327) | 295,138 | (96,131) |
| Extracurricular Activities | 153,325 | 53,734 | 138,353 | 33,159 |
| Interest and Fiscal Charges | 226,841 | 157,480 | 280,277 | 256,459 |
| Total | <u>\$9,001,328</u> | <u>\$ 7,197,552</u> | <u>\$ 8,411,253</u> | <u>\$ 6,563,910</u> |

THE SCHOOL DISTRICT FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$21,096,699 and expenditures and other financing uses of \$25,739,562.

The School District has two major funds; the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$7,784,699 in revenues and \$7,318,447 in expenditures and other financing uses. The General fund balance increased \$466,252. The Classroom Facilities Capital Projects Fund had \$11,377,384 in revenues and \$16,684,363 in expenditures. The Classroom Facilities fund balance decreased by \$5,306,979 due primarily to the District expending the money in capital outlay expenditures.

Georgetown Exempted Village School District

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

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the School District amended its General Fund budget. The actual resources exceeded the final budgeted amount by \$7,794,699 due to the District failing to file their certificate of estimated resources with the County. The increase from original to final budgeted expenditures was due to over estimating by the School District as the actual expenditures were only \$279,475 more than the original budget. Of this variance \$79,294 was encumbrances at year end. The School District's ending unobligated General Fund balance was \$799,982.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the School District had \$26,598,735 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles, and library and textbooks. For additional information on capital assets, see Note 11 to the basic financial statements. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4
Capital Assets
(Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|----------------------|
| | 2006 | 2005 |
| Land | \$ 224,937 | \$ 224,937 |
| Construction in Progress | 18,996,138 | 2,311,775 |
| Land Improvements | 141,852 | 151,566 |
| Buildings and Improvements | 4,837,769 | 5,020,773 |
| Furniture and Equipment | 1,643,352 | 1,710,941 |
| Vehicles | 270,601 | 298,620 |
| Library and Textbooks | 484,086 | 499,163 |
| Totals | <u>\$ 26,598,735</u> | <u>\$ 10,217,775</u> |

Changes in capital assets from the prior year resulted from additions of \$16,684,363 to construction in progress for the classroom facilities project, other additions, disposals, and current year depreciation.

Debt

At June 30, 2006, the School District had general obligation bonds and bond anticipation notes outstanding of \$4,721,630 and certificates of participation outstanding of \$257,000. For additional information on debt, see Note 12 to the basic financial statements.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Eric Toole, Treasurer at Georgetown Exempted Village School District, 1043 Mt. Orab Pike, Georgetown, Ohio 45121.

Georgetown Exempted Village School District

Statement of Net Assets

June 30, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$5,749,433 |
| Intergovernmental Receivable | 1,486,632 |
| Property Taxes Receivable | 2,364,609 |
| Restricted Assets: | |
| Equity in Pooled Cash and Cash Equivalents | 351,297 |
| Nondepreciable Capital Assets | 19,221,075 |
| Depreciable Capital Assets, Net | <u>7,377,660</u> |
| <i>Total Assets</i> | <u>36,550,706</u> |
| Liabilities | |
| Accounts Payable | 1,154 |
| Accrued Wages and Benefits Payable | 638,837 |
| Contracts Payable | 893,315 |
| Intergovernmental Payable | 202,278 |
| Retainage Payable | 351,297 |
| Deferred Revenue | 1,824,345 |
| Long-Term Liabilities: | |
| Due Within One Year | 247,720 |
| Due In More Than One Year | <u>5,354,233</u> |
| <i>Total Liabilities</i> | <u>9,513,179</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 21,567,589 |
| Restricted for: | |
| Capital Outlay | 5,382,086 |
| Debt Service | 617,344 |
| Other Purposes | 103,939 |
| Unrestricted (Deficit) | <u>(633,431)</u> |
| <i>Total Net Assets</i> | <u><u>\$27,037,527</u></u> |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District

Statement of Activities

For the Fiscal Year Ended June 30, 2006

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|--------------------|-------------------------|---------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$3,966,795 | \$183,957 | \$104,199 | (\$3,678,639) |
| Special | 1,082,690 | 28,927 | 509,727 | (544,036) |
| Vocational | 119,959 | 6,011 | 0 | (113,948) |
| Support Services: | | | | |
| Pupil | 226,522 | 11,646 | 0 | (214,876) |
| Instructional Staff | 364,953 | 16,530 | 18,010 | (330,413) |
| Board of Education | 425,266 | 21,789 | 1,286 | (402,191) |
| Administration | 656,871 | 33,435 | 2,573 | (620,863) |
| Fiscal | 282,837 | 13,900 | 4,217 | (264,720) |
| Operation and Maintenance of Plant | 660,124 | 33,811 | 1,930 | (624,383) |
| Pupil Transportation | 466,667 | 22,540 | 233,531 | (210,596) |
| Operation of Non-Instructional Services | 368,478 | 189,985 | 196,820 | 18,327 |
| Extracurricular Activities | 153,325 | 62,928 | 36,663 | (53,734) |
| Debt Service: | | | | |
| Interest and Fiscal Charges | 226,841 | 0 | 69,361 | (157,480) |
| Totals | \$9,001,328 | \$625,459 | \$1,178,317 | (7,197,552) |
| General Revenues | | | | |
| Property Taxes Levied for: | | | | |
| General Purposes | | | | 1,871,514 |
| Classroom Facilities | | | | 39,406 |
| Debt Service | | | | 427,407 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 4,762,753 |
| Grants and Entitlements Restricted for Classroom Facilities | | | | 423,080 |
| Gifts and Donations not Restricted to Specific Programs | | | | 1,975 |
| Investment Earnings | | | | 359,168 |
| Miscellaneous | | | | 266,308 |
| Total General Revenues | | | | 8,151,611 |
| Change in Net Assets | | | | 954,059 |
| Net Assets Beginning of Year | | | | 26,083,468 |
| Net Assets End of Year | | | | \$27,037,527 |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District

*Balance Sheet
Governmental Funds
June 30, 2006*

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|-------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$879,256 | \$4,103,819 | \$766,358 | \$5,749,433 |
| Receivables: | | | | |
| Property Taxes | 1,876,765 | 41,965 | 445,879 | 2,364,609 |
| Intergovernmental | 0 | 1,483,932 | 2,700 | 1,486,632 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 0 | 351,297 | 0 | 351,297 |
| <i>Total Assets</i> | <u>\$2,756,021</u> | <u>\$5,981,013</u> | <u>\$1,214,937</u> | <u>\$9,951,971</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$1,154 | \$0 | \$0 | \$1,154 |
| Accrued Wages and Benefits Payable | 594,758 | 0 | 44,079 | 638,837 |
| Retainage Payable | 0 | 351,297 | 0 | 351,297 |
| Contracts Payable | 649 | 892,666 | 0 | 893,315 |
| Intergovernmental Payable | 155,154 | 0 | 47,124 | 202,278 |
| Deferred Revenue | 1,588,102 | 1,519,149 | 377,873 | 3,485,124 |
| <i>Total Liabilities</i> | <u>2,339,817</u> | <u>2,763,112</u> | <u>469,076</u> | <u>5,572,005</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 79,294 | 0 | 9,814 | 89,108 |
| Reserved for Property Taxes | 288,663 | 6,748 | 70,706 | 366,117 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 48,247 | 0 | 0 | 48,247 |
| Special Revenue Funds | 0 | 0 | 127,125 | 127,125 |
| Debt Service Funds | 0 | 0 | 528,489 | 528,489 |
| Capital Projects Funds | 0 | 3,211,153 | 9,727 | 3,220,880 |
| <i>Total Fund Balances</i> | <u>416,204</u> | <u>3,217,901</u> | <u>745,861</u> | <u>4,379,966</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$2,756,021</u> | <u>\$5,981,013</u> | <u>\$1,214,937</u> | <u>\$9,951,971</u> |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

| | | |
|--|------------------|-----------------------------|
| Total Governmental Fund Balances | | \$ 4,379,966 |
| 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. | | 26,598,735 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | |
| Taxes | 174,147 | |
| Intergovernmental | <u>1,486,632</u> | |
| Total | | 1,660,779 |
| Long-Term Liabilities, including bonds, notes, capital lease obligations, certificate of participation, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated Absences | (570,807) | |
| School Improvement Bond Anticipation Note | (75,000) | |
| Classroom Facilities Bonds | (4,646,630) | |
| Capital Lease Obligations | (52,516) | |
| Certificate of Participation | <u>(257,000)</u> | |
| Total | | <u>(5,601,953)</u> |
| Net Assets of Governmental Activities | | <u><u>\$ 27,037,527</u></u> |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|---|------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$1,792,814 | \$6,748 | \$461,730 | \$2,261,292 |
| Intergovernmental | 5,224,932 | 11,137,431 | 815,331 | 17,177,694 |
| Investment Earnings | 125,963 | 233,205 | 0 | 359,168 |
| Charges for Services | 0 | 0 | 189,985 | 189,985 |
| Tuition and Fees | 375,673 | 0 | 1,381 | 377,054 |
| Extracurricular Activities | 0 | 0 | 58,420 | 58,420 |
| Gifts and Donations | 1,975 | 0 | 2,010 | 3,985 |
| Miscellaneous | 263,342 | 0 | 2,966 | 266,308 |
| <i>Total Revenues</i> | <u>7,784,699</u> | <u>11,377,384</u> | <u>1,531,823</u> | <u>20,693,906</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,479,469 | 0 | 194,794 | 3,674,263 |
| Special | 563,644 | 0 | 522,714 | 1,086,358 |
| Vocational | 119,728 | 0 | 0 | 119,728 |
| Support Services: | | | | |
| Pupil | 225,166 | 0 | 0 | 225,166 |
| Instructional Staff | 296,191 | 0 | 33,951 | 330,142 |
| Board of Education | 422,662 | 0 | 2,249 | 424,911 |
| Administration | 658,989 | 0 | 4,925 | 663,914 |
| Fiscal | 270,133 | 0 | 12,162 | 282,295 |
| Operation and Maintenance of Plant | 652,713 | 0 | 3,820 | 656,533 |
| Pupil Transportation | 439,772 | 0 | 0 | 439,772 |
| Operation of Non-Instructional Services | 0 | 0 | 362,933 | 362,933 |
| Extracurricular Activities | 84,997 | 0 | 68,328 | 153,325 |
| Capital Outlay | 0 | 16,684,363 | 6,000 | 16,690,363 |
| Debt Service: | | | | |
| Principal | 27,225 | 0 | 305,000 | 332,225 |
| Interest and Fiscal Charges | 6,965 | 0 | 212,876 | 219,841 |
| <i>Total Expenditures</i> | <u>7,247,654</u> | <u>16,684,363</u> | <u>1,729,752</u> | <u>25,661,769</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>537,045</u> | <u>(5,306,979)</u> | <u>(197,929)</u> | <u>(4,967,863)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 0 | 0 | 70,793 | 70,793 |
| Proceeds from Sale of Long Term Notes | 0 | 0 | 75,000 | 75,000 |
| Proceeds from Certificate of Participation | 0 | 0 | 257,000 | 257,000 |
| Issuance Costs | 0 | 0 | (7,000) | (7,000) |
| Transfers Out | (70,793) | 0 | 0 | (70,793) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(70,793)</u> | <u>0</u> | <u>395,793</u> | <u>325,000</u> |
| <i>Net Change in Fund Balances</i> | 466,252 | (5,306,979) | 197,864 | (4,642,863) |
| <i>Fund Balances Beginning of Year</i> | <u>(50,048)</u> | <u>8,524,880</u> | <u>547,997</u> | <u>9,022,829</u> |
| <i>Fund Balances End of Year</i> | <u>\$416,204</u> | <u>\$3,217,901</u> | <u>\$745,861</u> | <u>\$4,379,966</u> |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (4,642,863)

Amounts reported for governmental activities in the statement of activities are different because:

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. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|---------------------------|------------|------------|
| Capital Asset Additions | 16,732,809 | |
| Current Year Depreciation | (274,978) | |
| Total | 16,457,831 | 16,457,831 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets.

| | | |
|------------------------------------|--|----------|
| Loss on Disposal of Capital Assets | | (76,871) |
|------------------------------------|--|----------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|-------------------|--------------|--------------|
| Taxes | 77,035 | |
| Intergovernmental | (10,815,554) | |
| Total | (10,738,519) | (10,738,519) |

Proceeds from the sale of notes and certificate of participation in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (332,000)

Repayment of debt principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

| | | |
|----------------------------------|---------|---------|
| Bond and Note Principal Payments | 305,000 | |
| Capital Lease Principal Payments | 27,225 | |
| Total | 332,225 | 332,225 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|----------------------------------|----------|----------|
| Increase in Compensated Absences | (45,744) | |
| Total | (45,744) | (45,744) |

Net Change in Net Assets of Governmental Activities \$ 954,059

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--------------------------------------|-------------------------|----------------------|------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Total Revenues and Other Sources | \$0 | \$0 | \$7,794,699 | \$7,794,699 |
| Total Expenditures and Other Uses | <u>7,107,195</u> | <u>7,682,291</u> | <u>7,402,816</u> | <u>279,475</u> |
| Net Change in Fund Balance | (7,107,195) | (7,682,291) | 391,883 | 8,074,174 |
| Fund Balance, July 1 | 380,704 | 380,704 | 380,704 | 0 |
| Prior Year Encumbrances Appropriated | <u>27,395</u> | <u>27,395</u> | <u>27,395</u> | <u>0</u> |
| Fund Balance, June 30 | <u>(\$6,699,096)</u> | <u>(\$7,274,192)</u> | <u>\$799,982</u> | <u>\$8,074,174</u> |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

| | <u>Private Purpose Trust Fund</u> | <u>Agency Fund</u> |
|--|---|--------------------|
| ASSETS: | | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 141,479</u> | <u>\$ 41,132</u> |
| LIABILITIES: | | |
| Undistributed Monies | <u>\$ -</u> | <u>\$ 41,132</u> |
| NET ASSETS: | | |
| Held in Trust for Scholarships | <u>\$ 141,479</u> | |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

| | <u>Private Purpose Trust Fund</u> |
|--|--|
| ADDITIONS: | |
| Gifts and Contributions | \$ 51,185 |
| Miscellaneous | <u>500</u> |
| Total Additions | 51,685 |
| DEDUCTIONS: | |
| Payments in Accordance with Trust Agreements | <u>17,505</u> |
| Change in Net Assets | 34,180 |
| Net Assets Beginning of Year | <u>107,299</u> |
| Net Assets End of Year | <u><u>\$ 141,479</u></u> |

See accompanying notes to the basic financial statements.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of 60 square miles. It is located in Brown County and includes all of the Village of Georgetown, Ohio, and portions of surrounding townships. The Board of Education controls the School District's two instructional support facilities staffed by 45 non-certificated and 77 teaching personnel and administrative employees providing education to 1,014 students.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the Georgetown Exempted Village 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.

Entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District. These entities include the Boosters Club, Parent Teacher Organizations, and Alumni Associations.

The School District is associated with three organizations, one as a jointly governed organization, one as an insurance purchasing pool, and one as a public entity shared risk and insurance purchasing pool. These organizations are the South Central Ohio Computer Association, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Brown County Schools Benefits Consortium. These organizations are presented in Notes 13, 14 and 15 to the basic financial statements.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Georgetown Exempted Village School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation

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

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 financial activities of the primary government, except for the fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly 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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-Major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. All funds of the School District fall within two categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classroom Facilities The Classroom Facilities Fund is a fund provided to account for monies received and expended in connection with contracts entered into by the school district and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds which account for student managed activities and private purpose trust funds which are used to account for the financial activity of the School District's Scholarship Funds.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). 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 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition, grants, and fees.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also 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.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 (1) principal and interest on general long-term debt, which is recorded when due, (2) the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made when the first permanent appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2006, the School District's investments were limited to Money Market Accounts, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corp. Notes, Federal National Mortgage Association Notes, repurchase agreements, and funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General fund during fiscal 2006 amounted to \$125,963. The Classroom Facilities major fund received interest in the amount of \$233,205.

For purposes of presentation on the financial statements, investments of the cash management pool are considered to be cash equivalents.

G. Capital Assets and Depreciation

The School District's only capital assets are general assets. General capital assets are those assets specifically related governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. 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.

All reported capital assets, except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 5-15 years |
| Buildings and Improvements | 10-35 years |
| Furniture and Equipment | 5 – 20 years |
| Vehicles | 3-25 years |
| Library and Textbooks | 3-10 years |

H. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from fund responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the government-wide financial statements.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Vacation leave 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. 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.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

K. Fund Balance Reserves

The School District records reservations for portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and property taxes. The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. However, the unexpended proceeds of such borrowings are not used to reduce the net assets invested in capital assets balance. 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. Net assets restricted for other purposes include activities for food service operations, federal and state grants restricted to expenditures for specified purposes and statutory reserves.

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

The government-wide statement of net assets reports \$6,103,369 of restricted net assets, none of which are restricted by enabling legislation.

N. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments or imposed by enabling legislation. Restricted assets in the Classroom Facilities fund represent cash held as retainage for contractors.

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

A. Compliance

Contrary to Ohio law, at June 30, 2006, the District had appropriations in excess of estimated resources as the School District in the General Fund, Bond Retirement Fund, and Classroom Facilities Fund. Expenditures were not always certified by the Treasurer prior to incurring the obligation. The financial report was filed late and the GAAP report along with records for the audit were not timely produced.

B. Accountability

Fund balances at June 30, 2006, included the following individual fund deficits:

| Special Revenue Funds | |
|------------------------------|----------|
| Food Service | \$62,896 |
| Summer School Subsidy | 122 |
| Title VI-B | 2,498 |

The deficits in all of the above listed funds do not exist on the cash basis and are the result of applying accounting principles generally accepted in the United States of America and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (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 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis)-for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

| Net Change in Fund Balance | |
|----------------------------|-----------|
| | General |
| GAAP Basis | \$466,252 |
| Adjustments: | |
| Revenue Accruals | 10,000 |
| Expenditure Accruals | (5,075) |
| Encumbrances | (79,294) |
| Budget Basis | \$391,833 |

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by 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;
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, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

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 the purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee, or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The District’s bank balance of \$497,517 is either covered by FDIC or collateralized by the financial institution’s public entity deposit pools in the manner as described above.

Investments

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

| | Carrying/Fair Value | Maturities 6 months or less | Maturities 6 to 12 months |
|----------------------------------|------------------------|--------------------------------|------------------------------|
| STAR Ohio | \$ 474,084 | \$ 474,084 | \$ - |
| Money Market | 56,424 | 56,424 | - |
| Federal Home Loan Banks | 1,773,188 | 792,248 | 980,940 |
| Federal Home Loan Mortgage Corp. | 1,639,149 | 1,440,079 | 199,070 |
| Federal National Mtg. Assn. | 1,233,047 | - | 1,233,047 |
| Repurchase Agreement | 710,135 | 710,135 | - |
| Total Investments | <u>\$ 5,886,027</u> | <u>\$ 3,472,970</u> | <u>\$ 2,413,057</u> |

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to Repurchase Agreements, Money Market Accounts, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Bonds, Federal National Mortgage Association Notes and STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor’s. The Federal Home Loan Mortgage Corporation Bonds are rated AAA by Standard & Poors and Aaa by Moody’s. The Federal Home Loan Bank Bonds are rated AAA by Standard & Poor’s and Aaa by Moody’s. The Federal National Mortgage Association Bonds are rated AAA by Standard & Poor’s and Aaa by Moody’s.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy allows investments as authorized in the Ohio Revised Code. The District has invested 12.1% of its investments in repurchase agreements, 27.8% in Federal Home Loan Mortgage Corporation Bonds, 30.1% in Federal Home Loan Bank Bonds, 20.9% in Federal National Mortgage Association Bonds, 8.1% in STAR Ohio and 1.0% in money market accounts.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Banks Bonds and STAR Ohio are either insured and registered in the name of the District or at least registered in the name of the District. The investments in repurchase agreements are subject to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2006 real property taxes are collected in and intended to finance fiscal year 2007. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2006, on the value as of December 31, 2005. Collections are made in 2007. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 6 - PROPERTY TAXES (Continued)

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

| | 2005 Second- Half Collections | | 2006 First- Half Collections | |
|---|----------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other | \$84,288,630 | 90.63% | \$97,471,440 | 93.45% |
| Public Utility | 3,775,500 | 4.06% | 2,984,770 | 2.87% |
| Tangible Personal Property | 4,934,568 | 5.31% | 3,839,680 | 3.68% |
| Total Assessed Value | <u>\$92,998,698</u> | <u>100.00%</u> | <u>\$104,295,890</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$30.40 | | \$30.40 | |

Manufactured Home Tax, commonly referred to as House Trailer Tax, is based on the purchase price obtained from the title: (1) ninety-five percent unfurnished or (2) eighty percent furnished with a five percent drop each year.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 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 in the fund statements 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 \$288,663 in the General Fund, \$6,748 in the Classroom Facilities Fund, and \$70,706 in the other governmental funds.

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2006, the School District contracted with Selective Insurance Company for property insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy. Selective Insurance Company covers the boiler and machinery with a \$2,500 deductible and a \$15,242,731 limit.

Professional liability is protected by The Selective Insurance Company with a \$2,000,000 single occurrence limit and a \$5,000,000 aggregate and no deductible. Vehicles are covered by the Indiana Insurance Company and hold a \$250 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from the last fiscal year.

B. Builder's Risk Insurance

The District carries builders risk insurance with Indiana Insurance Company in amounts equal to the value of the construction with an aggregate limit to claims of \$22,200,000.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - RISK MANAGEMENT (Continued)

C. Worker's Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures 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.

D. Employee Medical Benefits

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk and insurance purchasing pool (Note 15) consisting of seven districts. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member shall assume and be responsible for the payment of any delinquent contributions and all claims of its employees from the date of termination regardless of the date such claims were incurred.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined 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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations, with the remainder being used to fund healthcare benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$126,628, \$159,902, and \$122,222, respectively; 63 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$46,557 represents the unpaid contribution for fiscal year 2006.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. 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 issues a publicly available financial report that includes financial statements and required supplementary information.

The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefits (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 of 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 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$495,365, \$474,082, \$474,927, respectively; 85 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$72,537 represents the unpaid contribution for fiscal year 2006.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$37,920 during fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients.

Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount to fund health care benefits, including the surcharge, equaled \$157,262 during the 2006 fiscal year.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2006, were \$158,751,207 and the target level was \$295.6 million. SERS has approximately 59,492 participants eligible to receive health care benefits.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per 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.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for certified and 183 days for non-certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for classified and certified employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Jefferson Pilot. The School District has elected to provide employee medical/surgical benefits through the Brown County Benefits Consortium in which health insurance premiums were paid to Medical Mutual. Dental insurance is provided by the School District to all employees through CoreSource.

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - EMPLOYEE BENEFITS (Continued)

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 11 - CAPITAL ASSETS

A summary of the District's capital assets at June 30, 2006, follows:

| | <u>Balance</u> <u>6/30/2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/2006</u> |
|---|------------------------------------|---------------------|-------------------|------------------------------------|
| Capital Assets: | | | | |
| Capital Assets not being depreciated: | | | | |
| Land | \$224,937 | \$0 | \$0 | \$224,937 |
| Construction in Progress | 2,311,775 | 16,684,363 | 0 | 18,996,138 |
| Total Capital Assets not being Depreciated | <u>2,536,712</u> | <u>16,684,363</u> | <u>0</u> | <u>19,221,075</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 646,248 | 0 | 0 | 646,248 |
| Buildings and Improvements | 9,357,337 | 0 | 0 | 9,357,337 |
| Furniture and Equipment | 3,096,017 | 36,415 | (144,740) | 2,987,692 |
| Library and Textbooks | 850,511 | 9,031 | (1,100) | 858,442 |
| Vehicles | 638,817 | 3,000 | (39,000) | 602,817 |
| Total Capital Assets being Depreciated | <u>14,588,930</u> | <u>48,446</u> | <u>(184,840)</u> | <u>14,452,536</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (494,682) | (9,714) | 0 | (504,396) |
| Buildings and Improvements | (4,336,564) | (183,004) | 0 | (4,519,568) |
| Furniture and Equipment | (1,385,076) | (31,033) | 71,769 | (1,344,340) |
| Library and Textbooks | (351,348) | (24,108) | 1,100 | (374,356) |
| Vehicles | (340,197) | (27,119) | 35,100 | (332,216) |
| Total Accumulated Depreciation | <u>(6,907,867)</u> | <u>(274,978) **</u> | <u>107,969</u> | <u>(7,074,876)</u> |
| Total Capital Assets being Depreciated, Net | <u>7,681,063</u> | <u>(226,532)</u> | <u>(76,871)</u> | <u>7,377,660</u> |
| Capital Assets, Net | <u>\$10,217,775</u> | <u>\$16,457,831</u> | <u>(\$76,871)</u> | <u>\$26,598,735</u> |

** Depreciation expense was charged to governmental functions as follows:

| | |
|---|------------------|
| Instruction: | |
| Regular | \$229,901 |
| Support Services: | |
| Instructional Staff | 9,408 |
| Board of Education | 355 |
| Administration | 5,525 |
| Fiscal | 149 |
| Operation and Maintenance of Plant | 923 |
| Pupil Transportation | 25,906 |
| Operation of Non-Instructional Services | <u>2,811</u> |
| Total Depreciation Expense | <u>\$274,978</u> |

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 12 – DEBT OBLIGATIONS

The changes in the School District’s long-term obligations during fiscal year 2006 were as follows:

| | Principal Outstanding 06/30/05 | Additions | Deductions | Principal Outstanding 06/30/06 | Due in One Year |
|--|--------------------------------------|-------------------|-------------------|--------------------------------------|--------------------|
| School Improvement Bond Anticipation Note - 5.25% | \$ 175,000 | \$ 75,000 | \$ 175,000 | \$ 75,000 | \$ 75,000 |
| Energy Conservation Bonds - 1996 5.65% | 30,000 | - | 30,000 | - | - |
| Classroom Facilities Bonds - 2004 5.13% | 4,746,630 | - | 100,000 | 4,646,630 | 125,000 |
| Certificate of Participation - 2006 4.92% | - | 257,000 | - | 257,000 | - |
| Capital Leases | 79,741 | - | 27,225 | 52,516 | 30,076 |
| Compensated Absences | 525,063 | 570,807 | 525,063 | 570,807 | 17,644 |
| Total Long-Term Obligations | \$ 5,556,434 | \$ 902,807 | \$ 857,288 | \$ 5,601,953 | \$ 247,720 |

Bond Anticipation Note

During fiscal year 2006, the School District issued a one-year \$75,000 bond anticipation note for the purpose of implementing school improvements at various School District buildings. This note will be repaid with tax revenue from the Debt Service Fund. This note is backed by the full faith and credit of the School District.

House Bill 464 Energy Bond

On June 1, 1996, the Georgetown Exempted Village School District issued \$300,000 in unvoted general obligation bonds for the purpose of implementing energy conservation measures at various School District buildings.

The bonds were issued for a 10 year period with a final maturity date of June 1, 2006. The bond was repaid from the Debt Service Fund.

Certificate of Participation

During fiscal year 2006, the School District entered into a Certificate of Participation Obligation for the purpose of financing the acquisition and construction of school improvements including roof improvements. The School District is leasing the project from the Columbus Regional Port Authority. The Authority will retain title to the project during the certificate term. The certificate will be mature in January of 2035.

Classroom Facilities Bond

On May 26, 2004, the Georgetown Exempted Village School District issued \$4,887,998 in unvoted general obligation bonds for the purpose of constructing a new elementary school to house grades PK through 6, renovations and additions to Georgetown Jr/Sr High School that houses grades 7 through 12 and to abandon Alverda Reed Elementary School. The bonds were issued for a 27 year period with a final maturity date of December 1, 2031. The bond will be repaid from the Debt Service Fund.

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 12 – DEBT OBLIGATIONS (Continued)

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. Capital lease obligations will be paid from the General Fund.

The School District’s voted legal debt margin was \$3,391,253 with an unvoted debt margin of \$104,296 at June 30, 2006.

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

| Fiscal Year Ending | Total General Obligation Debt | | |
|-----------------------|-------------------------------|--------------------|--------------------|
| | Principal | Interest | Total |
| 2007 | \$200,000 | \$219,206 | \$419,206 |
| 2008 | 125,000 | 216,463 | 341,463 |
| 2009 | 132,000 | 212,713 | 344,713 |
| 2010 | 132,000 | 207,994 | 339,994 |
| 2011 | 132,000 | 202,962 | 334,962 |
| 2012-2016 | 501,630 | 1,254,450 | 1,756,080 |
| 2017-2021 | 913,000 | 842,411 | 1,755,411 |
| 2022-2026 | 1,097,000 | 612,264 | 1,709,264 |
| 2027-2031 | 1,379,000 | 311,770 | 1,690,770 |
| 2032-2035 | 367,000 | 23,071 | 390,071 |
| | <u>\$4,978,630</u> | <u>\$4,103,304</u> | <u>\$9,081,934</u> |

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Pike, Ross, Scioto, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the eight participating counties, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$46,586 for services provided during the year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

NOTE 14 - INSURANCE PURCHASING POOL

The School District participates in the Ohio School Boards Association Workers’ Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP’s business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA.

The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 15 - PUBLIC ENTITY SHARED RISK POOL

Brown County Schools Benefits Consortium - The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees.

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 15 - PUBLIC ENTITY SHARED RISK POOL (Continued)

Six Brown County school districts (Eastern Brown, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Medical Mutual of Ohio to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage, the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, CoreSource. Participating member district's pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

| | Textbooks | Capital Acquisition |
|--|------------|---------------------|
| Set-aside Cash Balance as of June 30, 2005 | \$0 | \$0 |
| Current year set-aside requirement | 153,707 | 153,707 |
| Prior Year Carryover | (20,409) | (20,721) |
| Qualifying disbursements | (172,421) | (184,147) |
| Set-aside Balance Carried Forward to Future Years where allowable | (\$39,123) | (\$51,161) |
| Set-aside Reserve Balance as of June 30, 2006 | \$0 | \$0 |

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks and Capital Acquisition Reserves. These extra amounts may be carried forward to reduce the set-aside requirements of future years.

NOTE 17 - 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 is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 17 – CONTINGENCIES (Continued)

Litigation:

There are currently no matters in litigation with the School District as a defendant.

NOTE 18 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the items of intergovernmental receivables follows:

| <u>Intergovernmental Receivables</u> | <u>Amounts</u> |
|--|--------------------|
| <i>Major Fund</i> | |
| Classroom Facilities | \$1,483,932 |
| <i>Non-Major Special Revenue Fund:</i> | |
| Miscellaneous Federal Grant | <u>2,700</u> |
| Total Non-Major Special Revenue Fund | <u>2,700</u> |
| Total All Funds | <u>\$1,486,632</u> |

NOTE 19 – INTERFUND ACTIVITY

The transfers were made from the General Fund (a major fund) to provide support for operating activities of several of the School District's funds.

| <u>Fund</u> | <u>Transfer In</u> | <u>Transfer Out</u> |
|--|--------------------|---------------------|
| <i>Major Fund</i> | | |
| General Fund | \$ - | \$ 70,793 |
| <i>Non-Major Special Revenue Funds</i> | | |
| Food Service | 39,945 | - |
| Debt Service Fund | <u>30,848</u> | <u>-</u> |
| Total Transfers In/Out | <u>\$ 70,793</u> | <u>\$ 70,793</u> |

**Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 20 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a previous fiscal year, the School District entered into a capital lease for a copier. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the statement of net assets in the amount of \$134,100. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2006 totaled \$27,225 in the governmental funds.

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

| <u>Year Ending June 30,</u> | <u>Long-Term Debt</u> |
|---|---------------------------|
| 2007 | \$34,188 |
| 2008 | <u>22,794</u> |
| Total Minimum Lease Payments | 56,982 |
| Less: Amount Representing Interest | <u>(4,466)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 52,516</u> |

Georgetown Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 21 – CONTRACT COMMITMENTS

As of June 30, 2006, the School District had contractual purchase commitments for the construction of new school facilities as follows:

| <u>Contractor</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Balance at 6/30/06</u> |
|----------------------------------|----------------------------|----------------------------|-------------------------------|
| Artic Heating & Air Conditioning | \$ 2,478,189 | \$ 2,247,466 | \$ 230,723 |
| Brown County Construction | 671,206 | 397,439 | 273,767 |
| Continental Education | 72,015 | 68,124 | 3,891 |
| Emerald Fire Protection | 236,475 | 214,861 | 21,614 |
| Environmental Air | 75,000 | 71,980 | 3,020 |
| Feldkamp Enterprises | 756,508 | 648,534 | 107,974 |
| Habegger Corporation | 164,025 | 155,226 | 8,799 |
| Industrial Communications | 944,717 | 307,989 | 636,728 |
| Monarch Construction | 8,008,821 | 6,964,057 | 1,044,764 |
| Performance Site Management | 935,403 | 902,049 | 33,354 |
| Preferred Fire Protection | 78,156 | 32,433 | 45,723 |
| RPC Mechanical | 350,081 | 284,215 | 65,866 |
| School Specialty | 21,694 | - | 21,694 |
| Sidewinder Electric | 1,160,504 | 916,532 | 243,972 |
| Spectra Flooring | 92,750 | 41,366 | 51,384 |
| Spectrum Controls | 388,700 | 362,600 | 26,100 |
| Stockmeister Enterprises | 1,942,448 | 1,523,128 | 419,320 |
| Volpenhein Brothers | 819,671 | 683,246 | 136,425 |
| Total | <u>\$ 19,196,363</u> | <u>\$ 15,821,245</u> | <u>\$ 3,375,118</u> |

Georgetown Exempted Village School District
Brown County

Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|----------------------------------|---------------------------|-------------------|----------------------|-------------------|---------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Food Donation | NA | 10.550 | \$ - | \$ 20,608 | \$ - | \$ 20,608 |
| Nutrition Cluster | | | | | | - |
| National School Lunch Program | LLP4 | 10.555 | 100,491 | - | 100,491 | - |
| Special Milk Program for Children | O2PU | 10.556 | 954 | - | 954 | - |
| Total Nutrition Cluster | | | <u>101,445</u> | <u>-</u> | <u>101,445</u> | <u>-</u> |
| Total United States Department of Agriculture | | | 101,445 | 20,608 | 101,445 | 20,608 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| Title I Grants to Local Educational Agencies | C1S1 | 84.010 | 295,930 | - | 347,271 | - |
| Special Education Grants to States | 6BSF | 84.027 | 235,835 | - | 255,747 | - |
| Safe and Drug Free Schools and Communities - State Grants | DRS1 | 84.186 | 7,463 | - | 6,625 | - |
| State Grants for Innovative Programs | C2S1 | 84.298 | 2,991 | - | 2,249 | - |
| Education Technology State Grants | TJS1 | 84.318 | 4,528 | - | 4,379 | - |
| Improving Teacher Quality State Grants | TRS1 | 84.367 | 51,373 | - | 51,373 | - |
| Total United States Department of Education | | | <u>598,120</u> | <u>-</u> | <u>667,644</u> | <u>-</u> |
| Total Federal Financial Assistance | | | <u>\$ 699,565</u> | <u>\$ 20,608</u> | <u>\$ 769,089</u> | <u>\$ 20,608</u> |

NA = Pass through entity number could not be located.

See Notes to the Schedule of Federal Awards Expenditures.

**GEORGETOWN EXEMPTED VILLAGE SCHOOL DISTRICT
BROWN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – NATIONAL SCHOOL LUNCH PROGRAM

Federal funds received from the National School Lunch Programs were commingled with state subsidy and local revenue from the sale of meals. It is assumed that federal dollars are expended first.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards*

Members of the Board
Georgetown Exempted Village School District
1043 Mt. Orab Pike
Georgetown, Ohio 45121

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Georgetown Exempted Village School District, Brown County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprised the School District's basic financial statements as listed in the table of contents and have issued our report thereon dated July 20, 2007. 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 opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Georgetown Exempted Village School District
Brown County
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit Performed in Accordance
with *Government Auditing Standards*


Page 2

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-001 through 2006-003.

We also noted certain matters which we have reported to management of the School District in a separate letter dated July 20, 2007.

This report is intended for the information and use of the audit committee, 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.



Balestra, Harr & Scherer, CPAs, Inc.

July 20, 2007

BALESTRA, HARR & SCHERER, CPAs, INC.

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board
Georgetown Exempted Village School District
1043 Mt. Orab Pike
Georgetown, Ohio 45121

Compliance

We have audited the compliance of the Georgetown Exempted Village School District (the 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 auditor's 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 of 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006-005, 2006-006, and 2006-007.

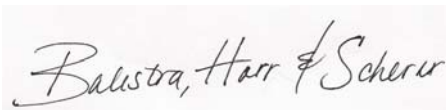
Internal Control Over Compliance

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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-008.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition item 2006-008 to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, members of the Board, 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.



Balestra, Harr & Scherer, CPAs, Inc.

July 20, 2007

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | Yes |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under .510? | Yes |
| <i>(d)(1)(vii)</i> | Major Program (list): | Special Education Grants to States – CFDA #84.027 Title I – CFDA #84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

Finding Number 2006-001

Material Noncompliance

Ohio Revised Code, Section 5705.39 provides in part that “total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.”

During fiscal year 2006 the School District had appropriations exceeding the unencumbered balance plus estimated revenues of \$7,274,192 in the General Fund, \$503,911 in the Bond Retirement Fund and \$15,170,123 in the Classroom Facilities Fund. These are final budget variances.

The District should file estimated resources with the County Auditor and closely monitor the budget versus actual results in order to ensure that accurate and complete information is presented by the District so that accurate budgets may be maintained.

Client Response:

Estimated resources will be monitored and amended certificates will be filed with the County Auditor as needed. This was done at end of fiscal year 2007 when new Treasurer was hired.

Finding Number 2006-002

Material Noncompliance

Ohio Revised Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision’s fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D)(1) and 5705.41 (D)(3), respectively, of the Ohio Revised Code.

1. **“Then and Now” certificate** – If the fiscal officer can certify that both at the time that the contract or order was made (“time”), and at the time that the fiscal officer is completing the certification (“now”), that 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 District has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.
2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

Finding Number 2006-002 (Continued)

During fiscal year 2006, many of the expenditures tested were not certified by the Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in noncompliance. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. The Treasurer should certify the availability of funds for expenditure and also implement the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

Client Response:

Purchase orders will be issued prior to purchase commitments. In instances where this is not practical, then and now certificates will be done in accordance with the Ohio Revised Code. Procedures will be shared with district employees to ensure compliance.

Finding Number 2006-003

Material Noncompliance

Ohio Revised Code, Section 117.38, requires GAAP basis entities to file their annual report with the Auditor of State within 150 days of the fiscal year end. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfilled, not to exceed seven hundred fifty dollars. The District's final GAAP report was not provided for audit until July of 2007 and was significantly different from the original report filed to meet the 150 day required deadline.

Client Response:

GAAP report will be prepared in a timely manner for fiscal year ended June 30, 2007. Publication will be done in local newspaper.

Finding Number 2006-004

Reportable Condition

Accurate and timely reconciliations between book and bank balances are a basic and important internal control. It reduces the risk that errors, theft or fraud may occur and not be detected in a timely manner. Reconciliations are also an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been deposited with the financial institution.

The only reconciliation that was provided for the audit period ending June 30, 2006 was the June 30 reconciliation. This reconciliation includes identified adjustments that had not been corrected and unexplained variances. The School District's June 30, 2006 outstanding checks list contain checks that are older than six months. Some outstanding checks are ten years old. This can cause the outstanding check list to become cumbersome and hamper reconciliation efforts.

Accurate and timely reconciliations should be performed monthly by the School District's Treasurer. Additionally, the monthly reconciliations should be provided to the Board for their review. This can help to hinder any misappropriations of funds and detect any errors which may have occurred on the books or by the bank. These errors can then be immediately identified and corrected. The School District should also, review the stale outstanding checks and handle them in accordance with MAS Bulletin Number 91-11.

Client Response:

This issue was during the previous Treasurer's term. As of June 30, 2007, monthly bank reconciliations are being performed and provided to the Board of Education for review. Additionally, old outstanding checks are being handled in accordance with MAS Bulletin 91-11.

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

| | |
|---------------------------|---|
| Finding Number | 2006-005 |
| CFDA Title and Number | Special Education Grants to States – CFDA #84.027 Title I – CFDA #84.010 |
| Federal Award Number/Year | 2006 |
| Federal Agency | United States Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Noncompliance Citation – Period of Availability of Federal Funds

20 U.S.C. 1225 (b) (2) states that any applicable program which, pursuant to paragraph (1) are available for obligation and expenditure in the year succeeding the fiscal year for which they were appropriated shall be obligated and expended in accordance with:

- (A) the Federal statutory and regulatory provisions relating to such program which are in effect for such succeeding fiscal year; and
- (B) any program plan or application submitted by such educational agencies or institutions for such educational agencies or institutions for such program for such succeeding fiscal year.

In Ohio, programs included in Ohio Department of Education’s Consolidated Application have a project period starting with the application approval date through June 30. Any carryover to the subsequent school district fiscal year must be approved by ODE. (A-133 Compliance Supplement)

Definition of Obligation: An obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for. (A-133 Compliance Supplement)

The act of an SEA or other grantee awarding Federal funds to an LEA or other eligible entity within a State does not constitute a final obligation (GEPA Section 421(b)) (34 CFR Sections 76.704 through 76.707). (A-133 Compliance Supplement)

Obligations must be liquidated prior to submitting the Final Expenditure Report, which must be filed no later than 90 days after the end of the project period. (ODE Federal Fiscal Report Procedures #1 and ODE Superintendent Weekly E-mail, December 6, 2002).

Several instances were identified in which expenditures were made after the availability period. Upon investigation of such items, the auditors noted that such expenditures were actually adjustments posted by the Treasurer. The School District paid various teachers from the general fund. However, these teachers should have been paid with federal funds, including Special Education and Title I funds. Subsequent to fiscal year-end, the Treasurer adjusted the appropriate funds to reflect expenditures as paid from the federal funds instead of the general fund.

Failure to properly account for federal monies is improper, even if corrected by year-end. The School District does not have a clear idea of how much should be drawn down periodically and cannot possess the ability to make informed decisions with such misinformation. Large adjustments during or after the available period give the appearance of inappropriate expenditures in or after the period of availability.

The School District should implement procedures to ensure that expenditures of federal grant monies are properly accounted for within its accounting system, both throughout the year and after year-end, and that all expenditures are obligated and expended within the period of availability.

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

| | |
|---------------------------|---|
| Finding Number | 2006-006 |
| CFDA Title and Number | Special Education Grants to States – CFDA #84.027 Title I – CFDA #84.010 |
| Federal Award Number/Year | 2006 |
| Federal Agency | United States Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Noncompliance Citation – Reporting

The Ohio Department of Education’s Consolidated Application Assurances item 5 provides that (Local Education Agency) LEA’s will make reports to ODE as may be reasonably necessary to enable ODE to perform its duties.

Program funds are reported to the State of Ohio. There are two forms the School District must file:

- Project cash request
- Final expenditure report

The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Failure to submit the report timely manner may result in a temporary suspension of the flow of federal funds for the grant until the project is closed.

Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amounts actually expended, not encumbered).

Because the Treasurer prepared adjustments after the period of availability, the Final Expenditure Report and Project Cash Requests submitted were not supported by the accounting records. Instead, they were made to reflect what the budgeted figures were. However, the adjustments that were posted do appear to have been adequately supported to provide assurance that federal awards expenditures reported on the Final Expenditure Report were proper but initially posted to the incorrect fund. As noted in Finding 2006-005, teachers were paid from the general fund during the fiscal year and an adjusting entry was posted subsequent to the fiscal year to reflect those expenditures as having been made from the appropriate federal funds.

Failure to properly account for federal monies is improper, even if corrected by year-end. The School District does not have a clear idea of how much should be drawn down periodically and cannot possess the ability to make informed decisions with such misinformation.

The School District should implement procedures to ensure that expenditures of federal grant monies are properly accounted for within its accounting system and all project cash requests and final expenditure reports are appropriately supported by accurate accounting records.

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

| | |
|---------------------------|---|
| Finding Number | 2006-007 |
| CFDA Title and Number | Special Education Grants to States – 84.027 Title I – 84.010 |
| Federal Award Number/Year | 2006 |
| Federal Agency | United States Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Noncompliance Citation – Cash Management

34 C.F.R. Part 80.21 states, in part:

- (a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contracts.
- (b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 C.F.R. Part 205.
- (c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

The first payment is initiated by the Ohio Department of Education. Subsequent payments must be requested by the LEA as needed using the online Project Cash Request (PCR).

Except for the initial PCR, cash requests are limited to one month (up to 10% of the approved budget amount) plus any negative balances (amount by which program expenditures exceed project cash received to date). ODE requires written explanation for monthly cash advance requests which exceed the 10% limit. Additionally, written explanations are required for cash advance requests when the balance on hand exceeds 10% of the approved budget amount. (Authority: ODE online Project Cash Request form).

It was noted during review of both the Title I and Special Education federal grants that proper project cash requests were not being properly prepared. The Treasurer inserted the received monies as disbursements, which always resulted in no fund balance. However, the PCRs were not adequately supported with the School District's accounting records due to the Treasurer's posting of teachers' salaries and benefits to the general fund instead of the appropriate federal funds throughout the fiscal year, with an adjusting entry posted by or after fiscal year-end to correct fund balances.

Supporting documentation was provided by the School District to demonstrate that adjusting entries were for appropriate federal expenditures. However, failure to properly account for federal monies is improper, even if corrected by year-end. The School District does not have a clear idea of how much should be drawn down periodically and cannot possess the ability to make informed decisions with such misinformation.

The School District should implement procedures to ensure that expenditures of federal grant monies are properly accounted for within its accounting system and that project cash requests are accurately completed and supported by the accounting records.

Georgetown Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2006

| | |
|---------------------------|--|
| Finding Number | 2006-008 |
| CFDA Title and Number | Special Education Grant to States – 84.027 Title I – 84.010 |
| Federal Award Number/Year | 2006 |
| Federal Agency | United States Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Material Weakness – Posting Expenditures Directly to Grant Funds

During the testing of the Special Education and Title I major federal programs, it was noted that the School District does not properly account for federal grant expenditures. The School District has funds and special cost centers for each grant and award year and receipts all such monies in those funds. However, the majority of expenditures related to such federal grants are actually expended from the general fund, and, at or after year-end, is reimbursed by those grant funds. As a consequence, project cash requests and final expenditure reports do not tie directly to the School District’s accounting records (reporting); there is the appearance of an excess accumulation of funds (cash management); and expenditures incurred during the period of availability appear to be skewed as those reimbursements are generally posted during that period (period of availability).

The Treasurer was able to provide the auditors with supporting documentation for adjustments (salaries and benefits of teachers paid from these funds). Expenditures appear to be allowable and attributed to the fiscal year. No questioned costs resulted, but it is pertinent to ensure federal monies are accounted for appropriately in the future.

Failure to properly account for federal monies is improper, even if corrected by year-end. The School District does not have a clear idea of how much should be drawn down periodically and cannot possess the ability to make informed decisions with such misinformation.

The School District should implement procedures to ensure that expenditures of federal grant monies are properly accounted for within its accounting system as expenditures occur throughout the year.

Georgetown Exempted Village School District
Corrective Action Plan
OMB Circular A-133 Section .315(c)
June 30, 2006

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|--|-----------------------------|----------------------------|
| 2006-005 | This issue was during the previous Treasurer's term. As of June 1, 2007, all expenditures of federal grant money are being posted directly to the federal fund within the accounting system. | June 1, 2007 | School Treasurer |
| 2006-006 | This issue was during the previous Treasurer's term. As of June 1, 2007, all expenditures of federal grant money are being posted directly to the federal fund within the accounting system. Additionally, project cash requests and final expenditure reports will be based on and supported by federal fund activity within the accounting system. | June 1, 2007 | School Treasurer |
| 2006-007 | This issue was during the previous Treasurer's term. As of June 1, 2007, all expenditures of federal grant money are being posted directly to the federal fund within the accounting system. Additionally, project cash requests and final expenditure reports will be based on and supported by federal fund activity within the accounting system. | June 1, 2007 | School Treasurer |
| 2006-008 | This issue was during the previous Treasurer's term. As of June 1, 2007, all expenditures of federal grant money are being posted directly to the federal fund within the accounting system. | June 1, 2007 | School Treasurer |

Georgetown Exempted Village School District
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2006

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|----------------|--|------------------|---|
| 2005-001 | Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purposes. | No | Not Corrected – Reissued as 2006-002 |
| 2005-002 | Ohio Rev. Code Section 117.38 requires that GAAP basis entities to file their annual reports with the Auditor of State within 150 days of the fiscal year end. | No | Not Corrected – Reissued as 2006-003 |
| 2005-003 | Reportable Condition – Accurate and timely reconciliations between book and bank balances are basic and important internal controls. | No | Not Corrected – Reissued as 2006-004 |
| 2005-004 | Noncompliance Citation – Period of Availability of Federal Funds | No | Not Corrected – Reissued as 2006-005 |
| 2005-005 | Noncompliance Citation – Reporting | No | Not Corrected – Reissued as 2006-006 |
| 2005-006 | Noncompliance Citation – Cash Management | No | Not Corrected – Reissued as 2006-007 |
| 2005-007 | Material Weakness – Posting Expenditures Directly to Grant Funds | No | Not Corrected – Reissued as 2006-008 |
| 2005-008 | Timely Performance of Single Audit | Yes | |



Mary Taylor, CPA
Auditor of State

GEORGETOWN EXEMPTED VILLAGE SCHOOL DISTRICT
BROWN 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
NOVEMBER 8, 2007