LISBON EXEMPTED VILLAGE SCHOOL DISTRICT
COLUMBIANA COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

**LISBON EXEMPTED VILLAGE SCHOOL DISTRICT**
**COLUMBIANA COUNTY**

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## INDEPENDENT ACCOUNTANTS' REPORT

Lisbon Exempted Village School District
Columbiana County
317 North Market Street
Lisbon, Ohio 44432

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lisbon Exempted Village School District, Columbiana County, Ohio (the District), 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 the Comptroller General of the United States' *Government Auditing Standards.* Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Lisbon Exempted Village School District, Columbiana County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, 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 April 16, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

April 16, 2007

The discussion and analysis in the following pages includes tables and graphic illustrations representing the management's view of the overall performance of the Lisbon Exempted Village School District's financial activities for the fiscal year ended June 30, 2006. It is the chief financial officer's responsibility to report annually on the status of operations and it is with great pleasure that I present to you this overview of the financial position of the District. The overall intent of this discussion and analysis is to look at the District's financial activities as a whole and how and why some facts may change its performance in the future. This is intended to be a clear presentation to our taxpayers and any others who may be interested in our District's finances.

## FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- The District's total net assets increased from $15,219,682 to $20,337,865 for a gain of $5,118,183 during this year's operations. The net assets of Governmental activities increased 33.6 percent.

- Revenues for governmental activities totaled $11,291,898 in 2006. This total was comprised of General revenues in the amount of $6,998,256 and program revenues totaling $4,293,642. Program revenues are grants, fees and donations; general (non-program) revenue is foundation from the State of Ohio and local taxes charged to residents of the District. In table 2 below, you will find the detailed cost of each program to our District.

- Program expenses totaled $6,173,715. Instructional expenses made up 55.9 percent of this total while support services accounted for 29.7 percent. Other expenses rounded out the remaining 14.4 percent.

- Outstanding general obligation bonded debt decreased from $2,065,000 to $1,935,000 in 2006.

## USING THIS ANNUAL REPORT

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

The *Statement of Net Assets* and the *Statement of Activities* (on pages 14 and 15) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 16 and provide the next level of detail. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. In the case of Lisbon Exempted Village School District, the general fund, debt service fund, permanent improvement fund and the Ohio School Facilities Commission Project Fund are the most significant funds. The remaining statements provide financial information about activities for which the District acts solely as an agent for the benefit of those outside the government.

### Reporting the School District as a Whole (district-wide)

*Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the District to provide programs and activities, the view of the District as a whole considers all financial transactions and asks the question, "Is the District better off or worse off as a result of the year's activities?" The answer to this question is one of the most important issues when analyzing any financial entity. The *Statement of Net Assets* and the *Statement of Activities* answers this question. These are the only two statements that display District-wide finances. Within these statements, we show the District divided into two distinct kinds of activities:

- Governmental Activities – All of the School District's instructional activities are reported here. Property Taxes, State and Federal Grants and fees finance the majority of activity in this group.

- Business-Type Activities – If the Board of Education sets a fee designed to offset the cost of operating a program, then this defines a business-type activity. The District does not have any of this type of activity.

Analysis of the District as a whole begins on page 4. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private-sector companies. The most important aspect of accrual accounting is that it takes into account all of the current year's revenues and expenses regardless of when cash is received or paid out.

These statements also display the net assets of the District and note any changes that occurred during the year. Net assets are the difference between assets and liabilities and they tend to be the leading indicator of financial health. This change in net assets is important because it tells the reader whether, for the District as a whole, the financial position has improved or declined. The causes of this change may be the result of many factors, some financial and some not. Please investigate the financial factors which may include changes in property tax values, tax levies and renewals or State funding issues before reaching a final conclusion about our District's financial status. Non-financial factors may include the District's performance, demographic and socioeconomic factors and willingness of the community to support the District's activities.

**Reporting the School District's Most Significant Funds**

Analysis of the District's major funds begins on page 9. The fund financial statements begin on page 16 and provide detailed information about each significant fund in contrast to the previously described District-wide reporting. Most of the funds are required to be established by State law. Using strict definitions the District's major governmental funds are the General fund, Debt Service fund, Permanent Improvement fund and the Ohio School Facilities Commission Project fund.

*Government Funds*
All of the District's funds are reported as governmental funds. These reports focus on how resources flow into and out of these funds and the balances left at year-end that are available for spending in future periods. These reports are done on a *modified accrual basis*, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. There are differences between governmental funds (as reported in this section) and Governmental Activities as reported in the Statement of Net Assets and the Statement of Activities. The relationships (or differences) are reconciled in the financial statements.

**The School District as a Whole**

The Statement of Net Assets looks at the District as a whole. The District's total net assets increased from a year ago. Table 1, shows an increase to $20,337,865 from $15,219,682. The increase in Net Assets were primarily due to an increase in Depreciable Capital Assets which is net of depreciation. As a whole the District received funds over this financial period which exceeded the amount of funds expended for its activities. There were changes in each of the different asset and liability categories that resulted in a positive effect on the Total Net Assets of the entity. You will see this fact presented in a graph and a table during discussion of the change in net assets.

**(Table 1)**
**Net Assets**

| | Governmental Activities | |
|---|---|---|
| | 2006 | 2005 |
| **Assets** | | |
| Current and Other Assets | $ 7,604,381 | $14,370,311 |
| Capital Assets | 21,789,047 | 11,644,867 |
| Total Assets | 29,393,428 | 26,015,178 |
| **Liabilities** | | |
| Long-Term Liabilities | (5,704,673) | (6,190,213) |
| Other Liabilities | (3,350,890) | (4,605,283) |
| Total Liabilities | ( 9,055,563) | (10,795,496) |
| **Net Assets** | | |
| Invested In Capital Assets, Net of Related Debt | 16,691,048 | 6,155,371 |
| Restricted | 2,081,909 | 8,002,153 |
| Unrestricted | 1,564,908 | 1,062,158 |
| Total Net Assets | $20,337,865 | $15,219,682 |

Current and Other Assets decreased due to the large reduction in the intergovernmental receivables associated with the Ohio School Facilities Commission Project. A majority of this receivable was received during this financial period. The Capital Assets increased significantly again as a result of the completion of the school district building project. The other asset categories showed very little change between the two fiscal years.

Total liabilities decreased $1,739,933 for this reporting period. The most significant factor contributing to the decrease in liabilities was the decrease in accounts payable of $996,447 which were related to the Ohio School Facilities Commission Project fund.

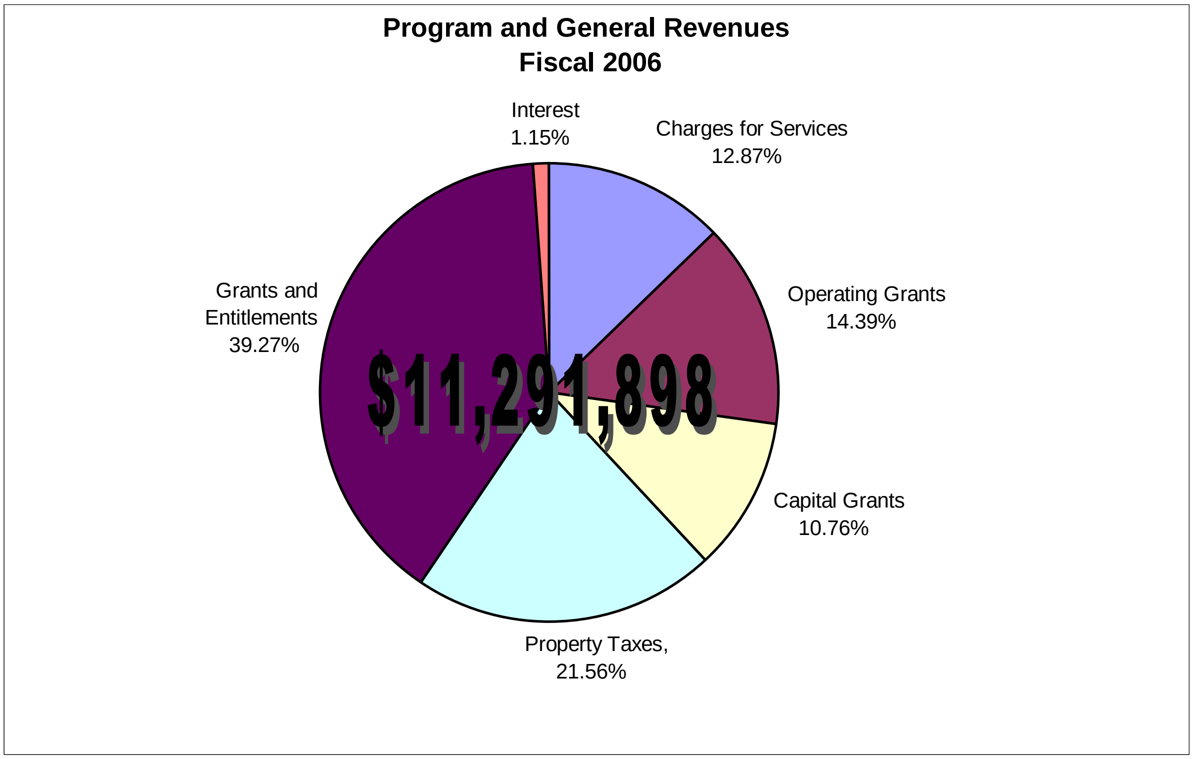
Capital Assets overall show an increase from the previous fiscal year. There was an increase in Capital Assets in the gross amount of $10,834,134. The District had a value $9,191,249 in additional buildings and improvements. Some of the purchases of instructional equipment did not meet the District's capitalization threshold of $2,000. The items that fall below the threshold level are tagged and tracked as movable equipment. To arrive at the net increase of $10,144,180 in Capital Assets, you must subtract this year's depreciation expense of $689,954.

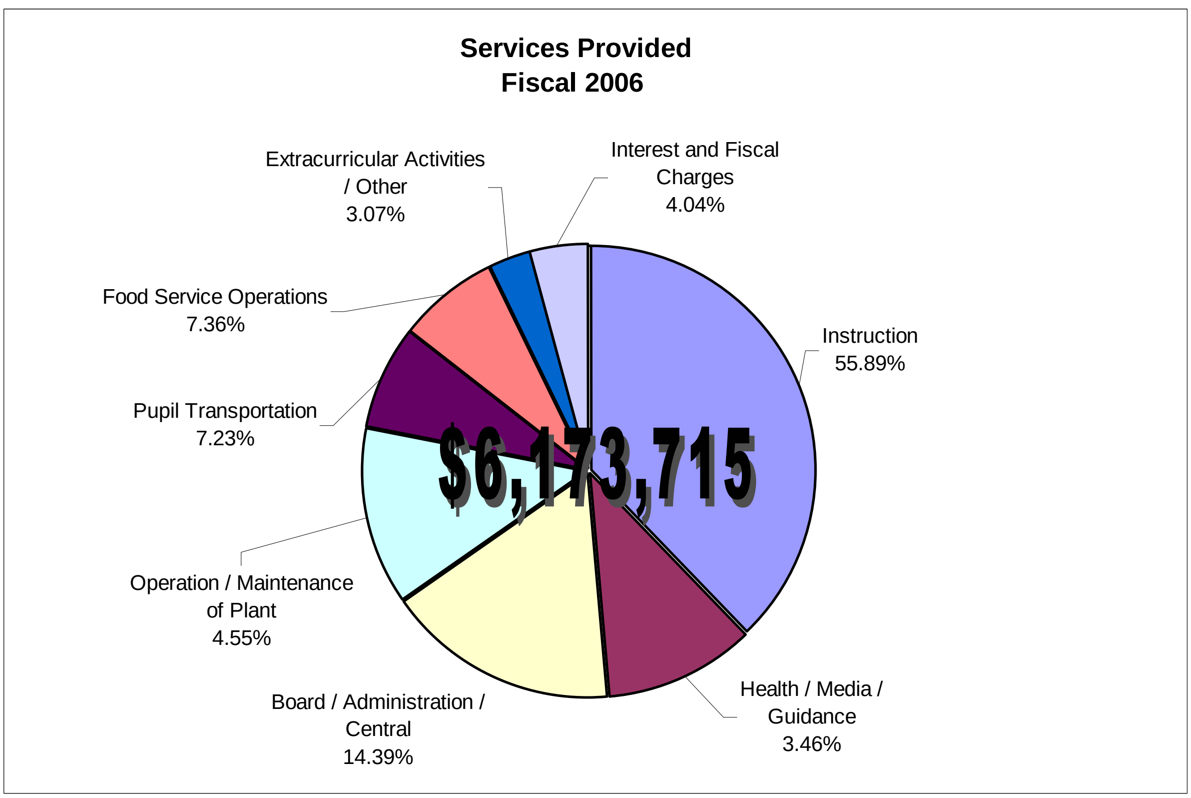
Table 2 highlights the District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table utilizes the full accrual method of accounting.

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

A comparative analysis of fiscal year 2006 and 2005 follows:

**(Chart 1)**
**Governmental Revenue and Program Expenses**
**Fiscal Year 2006**



**(Table 2)**
**Governmental Activities**

| | Governmental Activities 2006 | Governmental Activities 2005 |
|---|---|---|
| **Revenues** | | |
| Program Revenues: | | |
| Charges for Services and Sales | $1,453,347 | $1,423,777 |
| Operating Grants | 1,624,849 | 1,551,410 |
| Capital Grants | 1,215,446 | 146,068 |
| Total Program Revenues | 4,293,642 | 3,121,255 |
| General Revenue: | | |
| Property Taxes | 2,434,091 | 2,165,666 |
| Grants and Entitlements | 4,434,726 | 4,326,257 |
| Interest | 129,439 | 69,541 |
| Total General Revenue | 6,998,256 | 6,561,464 |
| Total Revenues | $11,291,898 | $9,682,719 |
| **Program Expenses** | | |
| Instruction: | | |
| Regular | $3,246,369 | $5,232,184 |
| Special | 148,324 | 885,228 |
| Vocational | 5,834 | 69,815 |
| Adult | 0 | 542 |
| Intervention | 50,021 | 0 |
| Support Services: | | |
| Pupils | 189,675 | 451,770 |
| Instructional Staff | 24,211 | 148,295 |
| Board of Education | 37,289 | 34,946 |
| Administration | 569,667 | 629,118 |
| Fiscal | 240,579 | 212,618 |
| Business | 18,702 | 13,102 |
| Operation and Maintenance of Plant | 280,978 | 624,671 |
| Pupil Transportation | 446,415 | 417,259 |
| Central | 21,935 | 34,830 |
| Extracurricular Activities | 189,740 | 217,690 |
| Food Service Operations | 454,371 | 351,997 |
| Debt Service: | | |
| Interest and Fiscal Charges | 249,605 | 259,927 |
| -Total Expenses | $6,173,715 | $9,583,992 |
| Increase in Net Assets | $5,118,183 | $98,727 |

Chart 1 graphically depicts the breakdown of both the District's revenue sources and the types of services provided. The District's reliance upon state funds is demonstrated by this chart which indicates that grants and entitlements, which includes state foundation, comprising 39.3 percent of the program revenues with property taxes making up another 21.6 percent. The largest percentage of the services provided at 39 percent was instruction which would be appropriate.

**Analysis of overall financial position and results of operations**

The financial position of the Lisbon Exempted Village School District has improved on the whole over the past fiscal year. Net Assets increased showing a slight improvement in fiscal health. The results of operations were excellent and stayed within the parameters established at the beginning of the fiscal year. Management was able to make the necessary improvements in services for children without increasing the spending levels for Regular Instruction. The Ohio School Facilities building project contributed to a decrease in Operation and Maintenance of Plant due to system upgrades and the building renovations and improvements. It is anticipated that the funds spent on repairs should decrease as the newly renovated and the additional new space is operational. The one factor that is difficult to predict is the increase in utilities that will result in different types of heating and cooling systems coming on line along with the general increases that will be experienced due to climate temperatures and market increases. Though spending was increased in some areas, the administration was able to streamline the costs of services in other areas to balance over the entire entity's operations. The cash balances were preserved and even increased. The District enjoyed a successful financial year and operation efficiencies improved.

The administration is aware of the fact that the increase in State funding will drop for the District over the next five years as demonstrated with the District's five-year forecast. This drop in state funding is a combination of two factors. One factor is that the increases to the per pupil allocation is not rising at the same levels as experienced in the past. The other factor is that the District is also experiencing a decline in student enrollment which results in less funding. With proper planning by the administration reductions will occur if necessary. It will be important that all program expenses are monitored and controlled growth will be necessary to stay in line with the student population.

In table 3 below the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. The net costs are program costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations. The Instruction Program is the one program area that actually covered its costs for this reporting period.

**(Table 3)**
**Total and Net Costs of Program Services**
**Governmental Activities**

| Programs | Total Cost of Services 2006 | Net Cost of Services 2006 |
|---|---|---|
| Instruction | $3,450,548 | $95,986 |
| Support Services: | | |
| Pupils and Instructional Staff | 213,886 | 210,651 |
| Board of Education, Administration, Fiscal and Business Services | 866,237 | 805,878 |
| Operation and Maintenance of Plant | 280,978 | 278,767 |
| Pupil Transportation | 446,415 | 83,679 |
| Central | 21,935 | 16,935 |
| Extracurricular Activities | 189,740 | 105,666 |
| Food Service Operations | 454,371 | 32,906 |
| Interest and Fiscal Charges | 249,605 | 249,605 |
| Total Expenses | $6,173,715 | $1,880,073 |

## THE DISTRICT'S FUNDS

As previously stated, these funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of $13,665,146 and expenditures of $17,154,421. The net change in fund balance for the fiscal year was most significant in the Ohio School Facilities Commission Project Fund, a decrease of $3,384,347 due to the lag in the payment for expenses related to the project. The most significant increase of $401,916 in fund balance resulted in the General fund due to the implementation of costs savings measures in staffing and monitoring general expenses.

### *General Fund Financial Activity*

The most significant Governmental Fund is the General Fund. The balance of the General Fund increased by $401,916. Both State Foundation Revenue and Tax Revenue increased, while operational expenditures were controlled to facilitate a cash increase. Cash in the General Fund increased by approximately fourteen percent from $2,081,924 in fiscal year 2005 to $2,371,080 in the fiscal year 2006 which is an adjustment of $289,156.

### *General Fund Budgetary Highlights*

The 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 fund to be budgeted is the main operating fund of the District, the General Fund. During the course of fiscal year 2006, the District amended its general fund budget numerous times. Many of the amendments reflect changes in expenditure priorities at the building level. For the general fund, the final budget basis revenue was $7,885,896 representing a $258,964 increase from the original budget estimate of $7,626,932. Most of this difference was due to a more pessimistic estimate of the State foundation distribution as it relates to the pupil enrollment estimates. The general fund receipts were estimated slightly less than four percent of actual revenue. The District's general fund balance at end of year was $2,237,198 reflecting additional funds budgeted but not expended or encumbered. The State of Ohio requires the District to submit a five-year-forecast on or before October 31st and a revised forecast between April 1st and May 31st regardless of the variance in the estimates versus actual activity. This is an additional process that ensures budgeting accuracies.

The District revises its budget throughout the fiscal year. During fiscal year 2006, there were some significant changes made in the different expenditure line items. Ultimately, the final actual expenditure levels did not approach the amended budget allocations. For the General Fund, the final budget basis expenditures reflected an increase of $252,225 which corresponded with the increase in the revenue estimates. Modifications to the original budget included increases in regular instruction, pupils, administrative salary and benefit accounts, operations and maintenance benefit accounts, and central supplies. There were decreases in the original budget estimates in special instruction expenses, instructional staff salary and benefit accounts, and business services.

The District's building principals are given a per pupil allocation for textbook, instructional materials, services and equipment. HB412 requires the District to set aside three percent of certain general fund revenues for the purchase of textbooks and materials related to instruction which site-based budgets help to meet. The District is also subject to a three percent spending requirement for capital maintenance expenses.

## CAPITAL ASSETS AND DEBT ADMINISTRATON

*Capital Assets*

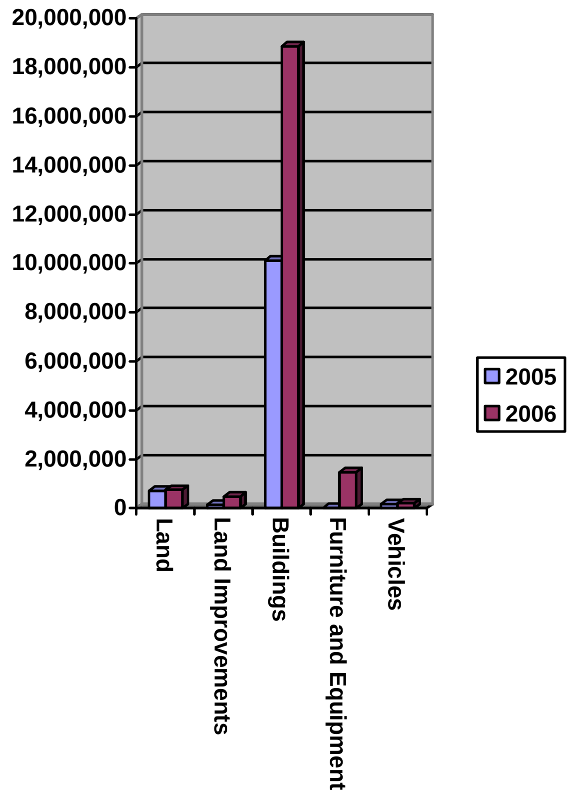
At the end of fiscal year 2006 the District has $21,789,047 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment and vehicles. The following table shows ending balances of capital assets invested in various categories. Notice that we are showing a depreciation expense of $689,954 which is a net increase of $10,144,180. You may discern from the following table that there was a significant investment in capital assets during this accounting period. The District completed both the elementary school's additions and renovations along with the Junior/Senior High School additions and renovations at the end of this accounting period. New furnishings were provided in both buildings. See Note 9 for further information on capital assets.

**Capital Assets**
**(Table 4)**
**Capital Assets at June 30**
**(Net of Depreciation)**

| | Governmental Activities | |
|---|---|---|
| | 2006 | 2005 |
| Land | $761,300 | $713,800 |
| Land Improvements | 478,973 | 377,438 |
| Buildings and Improvements | 18,871,921 | 10,121,425 |
| Furniture and Equipment | 1,465,831 | 255,229 |
| Vehicles | 211,022 | 176,975 |
| Totals | $21,789,047 | $11,644,867 |

The graph below shows the category and depreciated value of our District's capital assets. It is apparent by reviewing this graph that the District has been investing heavily over the past couple of fiscal years in the two educational buildings and the administrative offices that make up the District. The capital asset threshold of the District is set at $2,000 which eliminates the majority of the computers and other instructional support materials. The assets that fall below the threshold limit are tagged and tracked as movable equipment. This ensures that all assets of the District are being protected from theft or loss.

**(Chart 2)**
**Change in Net Assets**




## DEBT

At June 30, 2006 Lisbon Exempted Village School District had reduced its bonded debt to $1,935,000. The District paid $130,000 in bond principal and $83,670 in bond interest as well as reducing its note liability by $250,000. There was a reduction in the capital lease obligation of $93,767. See Notes 14 and 15 for further information on debt.

**(Table 5)**
**Outstanding Debt, at June 30**

| | Governmental Activities 2006 | Governmental Activities 2005 |
|---|---|---|
| Refunded General Obligation Bonds: | | |
| Series, 2004 | $1,935,000 | $2,065,000 |
| Unamortatized Premium | 165,911 | 167,324 |
| Notes Payable: | | |
| 1997 Building Additions | 350,000 | 600,000 |
| Capital Lease | 2,812,999 | 2,906,767 |
| Total | $5,263,910 | $5,739,091 |

As of June 30, 2006 the District's legal debt margin was $5,225,508 with an unvoted debt margin of $80,572. Capital leases do not count towards the District's legal debt margin. Neither Moody's nor Standard & Poor's currently rate the Lisbon Exempted Village School District.

**School District Outlook**

Lisbon Exempted Village School District is presently financially strong and trending toward maintaining its fiscal outlook. The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast and the District Continuous Improvement Plan. The financial future of the District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist as the District must rely on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines how it will deal with the decision of the Ohio Supreme Court ruling the current funding system unconstitutional. Management is still optimistic about the future for this District; however the following facts could change this outlook for the better or worse.

The most recently filed five-year forecast shows that this District will not require the passage of any new additional operating millage over the next four years. The District has not requested any additional operating millage locally since 1980 which keeps the millage rate at 20 mills. The laws of Ohio require that voted millage remain above or at a 20 mill floor. Ohio also requires that the county auditor revalue all real estate every six years and an update every three years. The General fund tax collections have risen significantly over the last fourteen years due to the inflationary growth of the real estate tax base. House Bill 920 reduction of millage does not occur due to the fact that the District is at the 20 mill floor. There is no reason not to assume that this pattern of growth in real estate values will not continue into the future. Interestingly, state law exploits this local value increase by automatically decreasing the School Foundation revenue. The District will be in a position to continue to benefit from the real estate tax increases. Open enrollment funding comprises a major portion of the local revenue base. This source of revenue grows with the per pupil allocation. The Board has discussed the fact that it may be necessary to go to the voters for additional operating funds, but many of the changes that have occurred in the state foundation system have begun to limit what options the District has in order to generate additional funding on a local level. The District receives funds that are called Charge-off Supplement (GAP) aid. This aid is called "GAP Aid" because its intent is to fill in any gap that exists between the local revenue raised by a district and the amount the foundation formula assumes the district should raise to meet its local share of formula aid, special education and vocational education weighted aid and transportation aid. Since this District's local revenue falls below the sum of the district's charge-off plus it's assumed local share of special education and vocational education weighted aid and transportation aid the state makes up the shortfall in charge-off supplemental aid. Local revenue consists of property taxes charged and payable for the current expenses for the tax year preceding the calendar year in which the fiscal year begins. This aid is suppose to guarantee that each pupil will receive the adequate base cost and categorical foundation amounts in state and local revenue combined. This source of funding equates to approximately 5.0 mills of the District's local tax base. Due to the structure of the funding calculation the District would loose those 5.0 mills if any other source of local funding was approved. This operates as a disincentive to pursue additional local funding due to the fact that the local residents would have to assume the first five 5.0 mills of taxation to break even and any additional funds would have to be added to the base. In the current political environment and the residents' reluctance to assume any additional taxation this becomes one of the most difficult external challenges to overcome.

We are dependent on outside factors for our future success. The Ohio School Funding Formula provides sixty percent of the revenue for Lisbon Exempted Village School District's General fund. The Ohio Legislature continues to be reluctant to propose any meaningful changes to the method by which it calculates the distribution of funds to the schools in this state. While a significant increase in the State's financial efforts would be welcome, our forecast does not take this possibility into account. We only anticipate a small increase in State revenue each year.

All insurance premiums and in particular health care premiums estimated to increase by double digits over the next five years. Management negotiated some significant changes in the medical program being offered to our staff and was able to see some savings in the premiums. The insurance industry is an area that is outside our control. Management has formed an insurance committee comprised of administrators, staff and industry experts to meet regularly to analyze the medical program and to attempt to control the costs. Health care cost containment has become a large issue for the future.

Lisbon Exempted Village Schools have eight teachers that are either currently eligible or approaching eligibility to retire over the next three years. When a veteran teacher retires, they are replaced by staff at a much lower cost if replaced at all. Due to the decline in the student enrollment being projected over the next five years there is a distinct possibility that not all of the eight staff would need to be replaced. This would have a positive affect on District finances.

As a result of the challenges mentioned above, it is imperative that the District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Lisbon Exempted Village School District has committed itself to financial and educational excellence for many years into the future.

**Contacting the School District's Financial Management**

These financial reports and discussions are designed to provide our students, citizens, taxpayers, investors and creditors with a complete disclosure of the School District's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have questions about this report or need additional financial information, please write Cynthia L. Altomare, Treasurer at Lisbon Exempted Village School District, 317 North Market Street, Lisbon, Ohio 44432 or call (330) 424-7714 or E-mail cindy.altomare@omeresa.net.

**Lisbon Exempted Village School District**
*Statement of Net Assets*
*June 30, 2006*

| | Governmental Activities |
|---|---|
| **Assets** | |
| Equity in Pooled Cash and Cash Equivalents | $4,903,694 |
| Cash and Cash Equivalents | |
| With Fiscal Agents | 1,673 |
| Intergovernmental Receivable | 172,879 |
| Interest Receivable | 741 |
| Inventory Held for Resale | 9,437 |
| Accounts Receivable | 3,002 |
| Property Taxes Receivable | 2,512,955 |
| Nondepreciable Capital Assets | 761,300 |
| Depreciable Capital Assets, Net | 21,027,747 |
| *Total Assets* | 29,393,428 |
| **Liabilities** | |
| Accounts Payable | 179,918 |
| Accrued Wages | 685,598 |
| Intergovernmental Payable | 230,428 |
| Deferred Revenue | 2,224,028 |
| Matured Bonds Payable | 1,000 |
| Matured Interest Payable | 673 |
| Accrued Interest Payable | 29,245 |
| Long-Term Liabilities: | |
| Due Within One Year | 544,408 |
| Due In More Than One Year | 5,160,265 |
| *Total Liabilities* | 9,055,563 |
| **Net Assets** | |
| Invested in Capital Assets, Net of Related Debt | 16,691,048 |
| Restricted for: | |
| Capital Projects | 1,658,075 |
| Debt Service | 124,017 |
| Other Purposes | 299,817 |
| Unrestricted | 1,564,908 |
| *Total Net Assets* | $20,337,865 |

See accompanying notes to the basic financial statements

**Lisbon 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 and Sales | Operating Grants and Contributions | Capital Grants, Contributions and Interest | Governmental Activities |
| **Governmental Activities:** | | | | | |
| Instruction: | | | | | |
| Regular | $3,246,369 | $988,139 | $437,776 | $1,215,446 | ($605,008) |
| Special | 148,324 | 37,396 | 675,805 | 0 | 564,877 |
| Vocational | 5,834 | 0 | 0 | 0 | (5,834) |
| Intervention | 50,021 | 0 | 0 | 0 | (50,021) |
| Support Services: | | | | | |
| Pupils | 189,675 | 0 | 3,235 | 0 | (186,440) |
| Instructional Staff | 24,211 | 0 | 0 | 0 | (24,211) |
| Board of Education | 37,289 | 0 | 0 | 0 | (37,289) |
| Administration | 569,667 | 29,892 | 30,467 | 0 | (509,308) |
| Fiscal | 240,579 | 0 | 0 | 0 | (240,579) |
| Business | 18,702 | 0 | 0 | 0 | (18,702) |
| Operation and Maintenance of Plant | 280,978 | 2,211 | 0 | 0 | (278,767) |
| Pupil Transportation | 446,415 | 89,606 | 273,130 | 0 | (83,679) |
| Central | 21,935 | 0 | 5,000 | 0 | (16,935) |
| Extracurricular Activities | 189,740 | 80,551 | 3,523 | 0 | (105,666) |
| Food Service Operations | 454,371 | 225,552 | 195,913 | | (32,906) |
| Interest and Fiscal Charges | 249,605 | 0 | 0 | 0 | (249,605) |
| *Totals* | $6,173,715 | $1,453,347 | $1,624,849 | $1,215,446 | (1,880,073) |

| | |
|---|---|
| **General Revenues** | |
| Property Taxes Levied for: | |
| General Purposes | 1,673,308 |
| Debt Service | 400,000 |
| Capital Projects | 360,783 |
| Grants and Entitlements not Restricted to Specific Programs | 4,434,726 |
| Investment Earnings | 129,439 |
| *Total General Revenues* | 6,998,256 |
| Change in Net Assets | 5,118,183 |
| *Net Assets Beginning of Year* | 15,219,682 |
| *Net Assets End of Year* | $20,337,865 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

| | General | Debt Service | Permanent Improvement | Ohio School Facilities Commission Project | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | $2,371,080 | $259,033 | $142,174 | $1,576,475 | $326,155 | $4,674,917 |
| Cash and Cash Equivalents With Fiscal Agents | 0 | 1,673 | 0 | 0 | 0 | 1,673 |
| Taxes Receivable | 1,709,387 | 395,487 | 370,884 | 0 | 37,197 | 2,512,955 |
| Interest Receivable | 741 | 0 | 0 | 0 | 0 | 741 |
| Accounts Receivable | 3,002 | 0 | 0 | 0 | 0 | 3,002 |
| Intergovernmental Receivable | 43,756 | 0 | 0 | 84,254 | 44,869 | 172,879 |
| Interfund Receivable | 2,232 | 0 | 0 | 0 | 0 | 2,232 |
| Inventory Held for Resale | 0 | 0 | 0 | 0 | 9,437 | 9,437 |
| *Total Assets* | $4,130,198 | $656,193 | $513,058 | $1,660,729 | $417,658 | $7,377,836 |
| **Liabilities** | | | | | | |
| Accounts Payable | $3,927 | $0 | $17,350 | $158,641 | $0 | $179,918 |
| Accrued Wages | 652,005 | 0 | 0 | 0 | 33,593 | 685,598 |
| Accrued Interest Payable | 0 | 10,109 | 12,135 | 0 | 0 | 22,244 |
| Interfund Payable | 0 | 0 | 0 | 0 | 2,232 | 2,232 |
| Intergovernmental Payable | 199,205 | 0 | 0 | 0 | 31,223 | 230,428 |
| Deferred Revenue | 1,576,903 | 362,963 | 341,549 | 84,254 | 75,628 | 2,441,297 |
| Matured Bonds Payable | 0 | 1,000 | 0 | 0 | 0 | 1,000 |
| Matured Interest Payable | 0 | 673 | 0 | 0 | 0 | 673 |
| *Total Liabilities* | 2,432,040 | 374,745 | 371,034 | 242,895 | 142,676 | 3,563,390 |
| **Fund Balances** | | | | | | |
| Reserved for Encumbrances | 112,411 | 0 | 15,180 | 647,460 | 10,085 | 785,136 |
| Reserved for Property Taxes | 132,484 | 32,524 | 29,335 | 0 | 2,900 | 197,243 |
| Unreserved, Undesignated, Reported in: | | | | | | |
| General Fund | 1,453,263 | 0 | 0 | 0 | 0 | 1,453,263 |
| Debt Service Funds | 0 | 248,924 | 0 | 0 | 0 | 248,924 |
| Special Revenue Funds | 0 | 0 | 0 | 0 | 261,997 | 261,997 |
| Capital Projects Funds | 0 | 0 | 97,509 | 770,374 | 0 | 867,883 |
| *Total Fund Balances* | 1,698,158 | 281,448 | 142,024 | 1,417,834 | 274,982 | 3,814,446 |
| *Total Liabilities and Fund Balances* | $4,130,198 | $656,193 | $513,058 | $1,660,729 | $417,658 | $7,377,836 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**

*Reconciliation of Total Governmental Fund Balances to*

*Net Assets of Governmental Activities*

*June 30, 2006*

| | | |
|---|---|---|
| **Total Governmental Fund Balances** | | $3,814,446 |
| ***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 | | 21,789,047 |
| Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Property and Other Taxes | 91,684 | |
| Intergovernmental | 125,585 | |
| Total | | 217,269 |
| An Internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | | 228,777 |
| Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds: | | |
| General Obligation Bonds | (1,935,000) | |
| General Obligation Bonds Premium | (165,911) | |
| Notes Payable | (350,000) | |
| Compensated Absences | (440,763) | |
| Capital Lease | (2,812,999) | |
| Accrued Interest Payable | (7,001) | |
| Total | | (5,711,674) |
| *Net Assets of Governmental Activities* | | $20,337,865 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**

*Statement of Revenues, Expenditures and Changes in Fund Balances*

*Governmental Funds*

*For the Fiscal Year Ended June 30, 2006*

| | General | Debt Service | Permanent Improvement | Ohio School Facilities Commission Project | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Taxes | $1,624,602 | $396,731 | $357,835 | $0 | $35,430 | $2,414,598 |
| Intergovernmental | 5,148,459 | 48,680 | 41,585 | 3,466,121 | 841,574 | 9,546,419 |
| Charges for Services | 0 | 0 | 0 | 0 | 218,564 | 218,564 |
| Interest | 128,485 | 0 | 0 | 111,978 | 955 | 241,418 |
| Tuition and Fees | 1,077,099 | 0 | 0 | 0 | 0 | 1,077,099 |
| Extracurricular Activities | 0 | 0 | 0 | 0 | 110,691 | 110,691 |
| Rentals | 14,633 | 0 | 0 | 0 | 0 | 14,633 |
| Contributions and Donations | 3,856 | 0 | 0 | 0 | 37,868 | 41,724 |
| *Total Revenues* | 7,997,134 | 445,411 | 399,420 | 3,578,099 | 1,245,082 | 13,665,146 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 4,047,171 | 0 | 0 | 0 | 242,141 | 4,289,312 |
| Special | 587,595 | 0 | 0 | 0 | 299,173 | 886,768 |
| Vocational | 78,953 | 0 | 0 | 0 | 0 | 78,953 |
| Intervention | 12,582 | 0 | 0 | 0 | 37,439 | 50,021 |
| Support Services: | | | | | | |
| Pupils | 476,644 | 0 | 0 | 0 | 13,010 | 489,654 |
| Instructional Staff | 160,294 | 0 | 0 | 0 | 9,341 | 169,635 |
| Board of Education | 37,289 | 0 | 0 | 0 | 0 | 37,289 |
| Administration | 602,093 | 0 | 0 | 0 | 72,409 | 674,502 |
| Fiscal | 236,513 | 0 | 0 | 0 | 3,151 | 239,664 |
| Business | 16,525 | 0 | 0 | 0 | 0 | 16,525 |
| Operation and Maintenance of Plant | 696,387 | 0 | 0 | 0 | 0 | 696,387 |
| Pupil Transportation | 475,534 | 0 | 0 | 0 | 0 | 475,534 |
| Central | 38,733 | 0 | 0 | 0 | 0 | 38,733 |
| Food Service Operations | 0 | 0 | 0 | 0 | 432,794 | 432,794 |
| Extracurricular Activities | 128,905 | 0 | 0 | 0 | 86,857 | 215,762 |
| Capital Outlay | 0 | 0 | 311,888 | 6,962,346 | 13,455 | 7,287,689 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 730,000 | 93,768 | 0 | 0 | 823,768 |
| Interest and Fiscal Charges | 0 | 104,336 | 147,095 | 0 | 0 | 251,431 |
| *Total Expenditures* | 7,595,218 | 834,336 | 552,751 | 6,962,346 | 1,209,770 | 17,154,421 |
| *Excess of Revenues Over (Under) Expenditures* | 401,916 | (388,925) | (153,331) | (3,384,247) | 35,312 | (3,489,275) |
| **Other Financing Sources** | | | | | | |
| Long-Term Notes Issued | 0 | 350,000 | 0 | 0 | 0 | 350,000 |
| *Net Change in Fund Balances* | 401,916 | (38,925) | (153,331) | (3,384,247) | 35,312 | (3,139,275) |
| *Fund Balances Beginning of Year* | 1,296,242 | 320,373 | 295,355 | 4,802,081 | 239,670 | 6,953,721 |
| *Fund Balances End of Year* | $1,698,158 | $281,448 | $142,024 | $1,417,834 | $274,982 | $3,814,446 |

See accompanying notes to the basic financial statements

**Lisbon 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** | | ($3,139,275) |
| ***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 outlay exceeded depreciation in the current period. | | |
| Capital Outlay | 10,834,134 | |
| Depreciation | (689,954) | |
| Total | | 10,144,180 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Property and Other Local Taxes | 19,495 | |
| Grants | (2,392,743) | |
| Total | | (2,373,248) |
| Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| Compensated Absences | | 10,170 |
| Other financing sources in the governmental funds increase long-term liabitlities in the statement of net assets. | | |
| Notes Issued | | (350,000) |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | |
| General Obligation Bonds | 130,000 | |
| Long-term Notes | 600,000 | |
| Capital Lease | 93,768 | |
| Total | | 823,768 |
| In the statement of activities interest is accrued on outstanding bonds, and notes, whereas in governmental funds an interest expenditure is reported when due. | | |
| Accrued Interest | 3,239 | |
| Bond Premium | (1,413) | |
| Total | | 1,826 |
| The internal service fund used by managemenat to charge the costs of insurance to individual funds is not reported In the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue(expenses) of the internal service fund is allocated among the governmental activites. | | 762 |
| *Change in Net Assets of Governmental Activities* | | $5,118,183 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**

*Statement of Revenues, Expenditures and Changes*
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*
*General Fund*
*For the Fiscal Year Ended June 30, 2006*

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Revenues** | | | | |
| Taxes | $1,502,997 | $1,537,138 | $1,543,323 | $6,185 |
| Intergovernmental | 5,004,665 | 5,133,660 | 5,134,503 | 843 |
| Interest | 56,000 | 125,000 | 132,368 | 7,368 |
| Tuition and Fees | 1,044,150 | 1,072,687 | 1,075,175 | 2,488 |
| Rentals | 18,500 | 14,633 | 14,633 | 0 |
| Contributions and Donations | 620 | 2,778 | 2,778 | 0 |
| *Total Revenues* | 7,626,932 | 7,885,896 | 7,902,780 | 16,884 |
| **Expenditures** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,257,816 | 5,410,903 | 4,154,187 | 1,256,716 |
| Special | 881,372 | 750,940 | 632,636 | 118,304 |
| Vocational | 74,990 | 78,693 | 78,114 | 579 |
| Intervention | 0 | 18,237 | 13,019 | 5,218 |
| Support Services: | | | | |
| Pupils | 575,470 | 643,316 | 468,000 | 175,316 |
| Instructional Staff | 256,719 | 243,630 | 161,891 | 81,739 |
| Board of Education | 52,217 | 53,146 | 29,951 | 23,195 |
| Administration | 718,449 | 749,604 | 596,140 | 153,464 |
| Fiscal | 235,424 | 244,154 | 239,202 | 4,952 |
| Business | 18,742 | 16,537 | 15,217 | 1,320 |
| Operation and Maintenance of Plant | 916,471 | 1,001,911 | 705,987 | 295,924 |
| Pupil Transportation | 544,922 | 565,720 | 482,768 | 82,952 |
| Central | 38,100 | 40,382 | 39,123 | 1,259 |
| Extracurricular Activities | 137,639 | 143,383 | 129,038 | 14,345 |
| *Total Expenditures* | 9,708,331 | 9,960,556 | 7,745,273 | 2,215,283 |
| *Excess of Revenues Over (Under) Expenditures* | (2,081,399) | (2,074,660) | 157,507 | 2,232,167 |
| **Other Financing Uses** | | | | |
| Advance Out | 0 | (2,232) | (2,232) | 0 |
| *Net Change in Fund Balance* | (2,081,399) | (2,076,892) | 155,275 | 2,232,167 |
| *Fund Balance Beginning of Year* | 2,026,075 | 2,026,075 | 2,026,075 | 0 |
| Prior Year Encumbrances Appropriated | 55,848 | 55,848 | 55,848 | 0 |
| *Fund Balance End of Year* | $524 | $5,031 | $2,237,198 | $2,232,167 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2006*

| | Insurance |
|---|---|
| **Assets** | |
| Equity in Pooled Cash and Cash Equivalents | $228,777 |
| **Liabilities** | |
| Claims Payable | 0 |
| **Net Assets** | |
| Unrestricted | $228,777 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**

*Statement of Revenues,*
*Expenses and Changes in Fund Net Assets*
*Internal Service Fund*
*For the Fiscal Year Ended June 30, 2006*

| | Insurance |
|---|---|
| **Operating Revenues** | |
| Charges for Services | $762 |
| **Operating Expenses** | |
| Claims | 47,302 |
| *Change in Net Assets* | (46,540) |
| *Net Assets Beginning of Year* | 275,317 |
| *Net Assets End of Year* | $228,777 |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**
*Statement of Cash Flows*
*Internal Service Fund*
*For the Fiscal Year Ended June 30, 2006*

| | Insurance |
|---|---|
| ***Increase (Decrease) in Cash and Cash Equivalents*** | |
| **Cash Flows from Operating Activities** | |
| Cash Payments for Goods and Services | $762 |
| Cash Payments for Claims | (47,302) |
| *Net Decrease in Cash and Cash Equivalents* | (46,540) |
| *Cash and Cash Equivalents Beginning of Year* | 275,317 |
| *Cash and Cash Equivalents End of Year* | $228,777 |
| **Reconciliation of Operating Loss to Net Cash Used for Operating Activities** | |
| Operating Loss | ($46,540) |
| *Net Cash Used for Operating Activities* | ($46,540) |

See accompanying notes to the basic financial statements

**Lisbon Exempted Village School District**
*Statement of Fiduciary Assets and Liabilities*
*Fiduciary Fund*
*June 30, 2006*

| | Agency |
|---|---|
| **Assets** | |
| Equity in Pooled Cash and Cash Equivalents | $40,395 |
| **Liabilities** | |
| Due to Students | $40,395 |

See accompanying notes to the basic financial statements

## Note 1 - Description of the District and Reporting Entity

Lisbon Exempted Village School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under a locally-elected five member Board form of government and provides educational services as authorized by its charter and further mandated by state and federal agencies.

The District is located in Lisbon, Ohio, Columbiana County. The Board of Education controls the District's four instructional/support facilities staffed by 45 classified employees, 74 certificated full-time teaching personnel and 4 administrators who provide services to 1,122 students and other community members.

*Reporting Entity*

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Lisbon Exempted Village School District.

The District participates in four organizations which are defined as jointly governed organizations and one insurance purchasing pool. These organizations include the Columbiana County Career and Technical Center, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Portage Area School Consortium, the Ohio Schools' Council, and Ohio School Business Officials' Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 17 and 18 to the basic financial statements.

## Note 2 - Summary of Significant Accounting Policies

The financial statements of Lisbon Exempted Village School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

*A. Basis of Presentation*

The 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the District that are governmental and those that are considered business-type. However, the District has only governmental activities; therefore no business-type activities are presented.

The statement of net assets presents the financial condition of the governmental activities of the 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 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. 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 District.

***Fund Financial Statements*** During the year, the District segregates transactions related to certain 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 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. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

### *B. Fund Accounting*

The 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. The various funds of the District are grouped into the 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 District's major governmental funds:

> ***General Fund*** - the general fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.
>
> ***Debt Service Fund*** -The debt service fund receives property taxes for the payment of general obligation bonds issued for additions to both the elementary and high schools.
>
> ***Permanent Improvement Fund*** – The permanent improvement fund receives property taxes for the payment of the construction of a new administration building, lease-purchase of a bus garage facility and the rental for District's copier equipment.
>
> ***Ohio School Facilities Commission Project Fund*** – The Ohio School Facilities Commission Project fund receives both State and local funds for the payment of the building renovations and additions to both the elementary and high schools.

The other governmental funds of the District account for grants and other resources whose uses are restricted to a particular purpose.

***Proprietary Funds*** Proprietary funds reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The District has no enterprise funds. The following is a description of the District's internal service fund:

> **Internal Service Fund** – This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost-reimbursement basis. The only internal service fund carried on the financial records of the District is related to self insurance. This fund accounts for the revenues and expenses related to the provision of medical, surgical, prescription drug and dental benefits to the District employees.

***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. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student managed activities.

### *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 District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., 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, 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 (e.g., revenues and other financing sources) and uses (e.g., 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of revenue, expenses and changes in fund net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of the internal service fund activity.

### *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 and the statement of the fiduciary funds are prepared using 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, 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 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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, grants, interest, tuition, fees and rentals.

***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.

***Expenditures/Expenses*** 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

### *E. Budgetary Data*

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were passed by the Board of Education.

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

### *F. Cash and Investments*

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The District has invested funds during fiscal year 2006 in federal home loan bank notes, federal home loan mortgage corporation notes, federal national mortgage association notes, repurchase agreements, and in the State Treasury Asset Reserve of Ohio (STAROhio). Repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to $128,485, which includes $6,040 assigned from other District funds.

The District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in these accounts are presented as "Cash and Cash Equivalents with Fiscal Agents" and represent deposits or short-term investments in certificates of deposits.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

### *G. Restricted Assets*

Assets are reported as restricted when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund represent cash and cash equivalents required by statute to be set-aside by the District for the creation of a reserve for budget stabilization and unexpended revenues restricted to the purchase of school buses. See note 16 for additional information regarding set-asides.

### *H. Inventory*

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in first-out basis and are expensed when used.

On fund financial statements, inventories of the governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventories in governmental funds consist of purchased and donated food held for resale. The cost of inventory items is recorded as expenditure in the governmental fund types when used.

### *I. Capital Assets*

All of the District's capitalized assets are general capitalized assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District was able to estimate the historical cost for the initial reporting assets by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, 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:

| Description | Governmental Activities Estimated Lives |
|---|---|
| Land Improvements | 20 years |
| Buildings and Improvements | 50 years |
| Furniture, Fixtures and Equipment | 5 - 20 years |
| Vehicles | 10 years |

### *J. Interfund Balances*

On fund financial statements, receivables and parables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

### *K Compensated Absences*

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent 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.

### *L. 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 compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***M. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net assets reports $2,081,909 of restricted net assets of which $299,817 is restricted by enabling legislation. Net assets restricted for other purposes include food service operations and extracurricular activities.

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

***N. Fund Balance Reserves***

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principals but not available for appropriation under State Statute.

***O. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenue and expenses not meeting these definitions are reported as non-operating.

***P. Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and expenditures/expenses in the purchaser funds. Flow 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 funds responsible for particular expenditure/expenses to the funds that initially paid for them are not presented on the financial statements.

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

***R. Estimates***

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

## Note 3 – Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 47, “Accounting for Termination Benefits”. GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the District.

**Note 4 – Accountability**

The deficit balances in the following special revenue funds as of June 30, 2006 resulted from adjustments for accrued liabilities.

| | |
|---|---|
| Poverty Based Assistance | $4,013 |
| Title I | 13,547 |
| Title II-A | 7,257 |
| Title IV | 1,148 |
| Title V | 705 |

The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

While the District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented 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 (modified accrual) basis are as follows:

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

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

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

4. Investments reported at cost (budget) rather than at fair value (GAAP).

5. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| | |
|---|---|
| GAAP Basis | $401,916 |
| Net Adjustment for Revenue Accruals | (94,354) |
| Advance Out | (2,232) |
| Net Adjustment for Expenditure Accruals | (16,173) |
| Adjustment for Encumbrances | (133,882) |
| Budget Basis | $155,275 |

**Note 6 - Deposits and Investments**

Monies held by the District are classified by State statute into three categories.

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

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

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

Interim monies held by the District can 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 payment of principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

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;

7. The State Treasurer's investment pool (STAROhio);

8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

***Deposits***

Custodial credit risk for deposits is the risk that in the event of bank failure, the District's deposits may not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, the carrying amount of the District's deposits was $2,997,005 and the bank balance was $3,042,387. Of the bank deposits, $1,090,000 was covered by federal depository insurance and $1,952,387 was uninsured. The remaining uninsured bank balance was collateralized with securities held by the pledging institution's trust department not in the District's name. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by FDIC.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

***Investments***

Investments are reported at fair value. As of June 30, 2006, the District had the following investments:

| | Fair Value | Maturity |
|---|---|---|
| Federal Home Loan Bank Note #1 | $247,811 | July 13, 2006 |
| Federal Home Loan Bank Note #2 | 200,000 | September 1, 2006 |
| Federal Home Loan Bank Note #3 | 192,029 | October 13, 2006 |
| Federal Home Loan Bank Note #4 | 252,721 | July 6, 2007 |
| Federal Home Loan Bank Note #5 | 200,156 | October 7, 2008 |
| Federal Home Loan Mtg Corp | 101,526 | November 15, 2008 |
| Federal National Mtg Assn | 300,000 | August 10, 2010 |
| Federal National Mtg Assn | 126,623 | August 23, 2010 |
| Sky Bank Repurchase Agreement | 188,768 | 1 day |
| STAROhio | 139,123 | 33 days |
| Totals | $1,948,757 | |

***Interest Rate Risk*** As a means of limiting its exposure to fair value losses caused by rising interest rates, the District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from date of purchase and that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

***Credit Risk*** The Federal Home Loan Bank Notes, the Federal Home Loan Mortgage Corporation Notes, and the Federal National Mortgage Association Notes carry a rating of AAA by Standard & Poor's and STAROhio also carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

***Custodial Credit Risk*** For an investment, custodial 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 Federal Home Loan Bank Notes, Federal Home Loan Corporation Notes, and the Federal National Mortgage Association Notes are exposed 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.

***Concentration of Credit Risk*** The District places no limit on the amount it may invest in any one issuer. The following is the District's allocation as of June 30, 2006:

| Investment Issuer | Percentage of Investments |
|---|---|
| Sky Bank Repurchase Agreement | 9.71% |
| Federal Home Loan Bank Notes | 56.04% |
| Federal Home Loan Mortgage Corp. Notes | 5.14% |
| Federal National Mortgage Association Notes | 21.95% |
| STAROhio | 7.16% |

**Note 7 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 (used in business) property located in the District. Real property tax revenue received during calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

Accrued property taxes received include real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance of real property taxes at June 30, 2006, was $132,484 in the general fund, $32,524 in the bond retirement fund, $29,335 in the permanent improvement fund, and $2,900 in the OSFC maintenance levy fund. The amount available for advance of personal property taxes at June 30, 2006, was $19,791 in the general fund, $3,867 in the bond retirement fund, $3,488 in the permanent improvement fund and $379 in the OSFC maintenance levy fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

| | 2005 Second Half Collections | | 2006 First Half Collections | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | $70,313,660 | 86.77% | $70,878,800 | 87.97% |
| Public Utility | 5,613,220 | 6.93% | 5,864,280 | 7.28% |
| Tangible Personal Property | 5,104,390 | 6.30% | 3,828,863 | 4.75% |
| Total Assessed Value | $81,031,270 | 100.00% | $80,571,943 | 100.00% |
| Tax rate per $1,000 of assessed valuation | $36.30 | | $36.30 | |

**Note 8 - Receivables**

Receivables at June 30, 2006, consisted of taxes, accounts (rent), interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year except for the Ohio School Facilities Commission Project Grant.

A summary of the principal items of intergovernmental receivables follows:

| | Amounts |
|---|---|
| General Fund: | |
| Special Education Transportation | $38,236 |
| Instructional Supplies Reimbursement | 1,020 |
| Rent | 4,500 |
| Total General Fund | 43,756 |
| Special Revenue Funds: | |
| Food Service | 3,538 |
| Ohio School Facilities Project | 84,254 |
| Title I | 37,532 |
| Title II-A | 1,567 |
| Title IV | 1,310 |
| Title V | 922 |
| Total Special Revenue Funds | 129,123 |
| Total All Funds | $172,879 |

**Note 9 - Capital Assets**

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

| Governmental Activities | Balance June 30, 2005 | Additions | Deletions | Balance June 30, 2006 |
|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | |
| Land | $713,800 | $47,500 | $0 | $761,300 |
| **Depreciable Capital Assets** | | | | |
| Land Improvements | 547,501 | 128,109 | 0 | 675,610 |
| Buildings and Improvements | 13,302,600 | 9,191,249 | 0 | 22,493,849 |
| Furniture, Fixtures and Equipment | 647,169 | 1,404,074 | 0 | 2,051,243 |
| Vehicles | 532,169 | 63,202 | 0 | 595,371 |
| Total at Historical Cost | 15,029,439 | 10,786,634 | 0 | 25,816,073 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (170,063) | (26,574) | 0 | (196,637) |
| Buildings and Improvements | (3,181,175) | (440,753) | 0 | (3,621,928) |
| Furniture, Fixtures and Equipment | (391,940) | (193,472) | 0 | (585,412) |
| Vehicles | (355,194) | (29,155) | 0 | (384,349) |
| Total Accumulated Depreciation | (4,098,372) | (689,954) * | 0 | (4,788,326) |
| Depreciable Capital Assets, Net of Accumulated Depreciation | 10,931,067 | 10,096,680 | 0 | 21,027,747 |
| Governmental Activities Capital Assets, Net | $11,644,867 | $10,144,180 | $0 | $21,789,047 |

- Depreciation expense was charged to governmental functions as follows:

| | |
|---|---|
| Instruction: | |
| Regular | $491,103 |
| Vocational | 492 |
| Support Services: | |
| Instructional Staff | 4,374 |
| Administration | 25,885 |
| Operations and Maintenance of Plant | 86,155 |
| Pupil Transportation | 36,212 |
| Extracurricular Activities | 24,193 |
| Food Service Operations | 21,540 |
| Total Depreciation Expenses | $689,954 |

## Note 10 - Risk Management

### *A. Property and Liability*

The 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. During fiscal year 2006, the District contracted with Holloway Insurance Company which provided for property, fleet and liability insurance coverage through Indiana Insurance Company. The levels of coverage are listed below:

| Type of Coverage | Amount |
|---|---|
| Building and Contents – replacement costs | $17,408,811 |
| Inland Marine Coverage | 61,064 |
| Crime Insurance | 10,000 |
| Extra Expense | 500,000 |
| Automobile Liability | 2,000,000 |
| Auto Medical Payments | 5,000 |
| Uninsured Motorists | 1,000,000 |
| General Liability | |
| Per Occurrence | 1,000,000 |
| Total per year | 5,000,000 |

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

***B. Workers' Compensation***

The District participates in the Ohio School Business Officials' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost controls, and actuarial services to the GRP.

***C. Other Employee Benefits***

The District began participation in the Portage County School Consortium which is a co-operative entity to facilitate risk management and to share the cost of providing various insurance coverage and employee benefits beginning July 1, 2005. There has not been a significant reduction in coverage from the prior year.

The District pays 100 percent of the insurance premium costs for 94 percent of the staff. For the period covering July 1, 2005 through June 30, 2006, the District paid premiums in the amount of $877.24 for family coverage per month and $376.46 per single coverage per month. The premiums are paid by the fund that pays the salary for the employee and are based on historical cost information.

**Note 11 - Pension Plans**

***A. School Employees Retirement System***

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800)878-5853, or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were $89,018, $78,053 and 68,072 respectively; 72.41 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

***B. State Teachers Retirement System***

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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.

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were $490,222, $481,960, and $480,079, respectively; 80.04 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were $4 made by the School District and $6,928 made by the plan members.

***C. Social Security System***

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

## Note 12 - Postemployment Benefits

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

All STRS Ohio retirees who participate in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled $37,709 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including surcharge, during the 2006 fiscal year equaled $42,358.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005, (the latest information available), were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

## Note 13 - Other Employee Benefits

### *A. Compensated Absences*

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and the treasurer earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and the treasurer 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 220 days for both certified and classified employees. Upon retirement, payment is made according to negotiated agreements.

### *B. Life Insurance*

The District provides term life and accidental death and dismemberment insurance to most employees through Mutual of Omaha. Both full time certified and classified employees receive $30,000, and District administrators receive $50,000.

## Note 14 - Long-term Obligations

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

| | Principal Outstanding 6/30/05 | Additions | Deductions | Principal Outstanding 6/30/06 | Amounts due in One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Refunded General Obligation Bonds | $2,065,000 | $0 | $130,000 | $1,935,000 | $130,000 |
| Unamortized Premium | 167,324 | 0 | 1,413 | 165,911 | 1,408 |
| Bond Anticipation Notes,2004, 2.48% | 600,000 | 350,000 | 600,000 | 350,000 | 350,000 |
| Compensated Absences | 450,933 | 0 | 10,170 | 440,763 | 0 |
| Capital Leases | 2,906,767 | 0 | 93,768 | 2,812,999 | 63,000 |
| *Total Governmental Activities Long-Term Liabilities* | $6,190,024 | $350,000 | $835,351 | $5,704,673 | $544,408 |

The 1992 General Obligation Bonds were originally issued in the amount $3,085,000. These bonds were issued for the purpose of facility additions and remodeling. The District entered into an agreement with Fifth Third Securities, Inc. to purchase the 1992 General Obligation Bonds in the amount of $2,220,000 dated April 1, 2004. The School Improvement Refunding Bonds, Series 2004 average interest rate was 3.85% compared to the rate of 6.25% on the 1992 General Obligation Bonds. This reduction in interest rate resulted in a net present value savings of $226,984 to the District.

The $600,000 bond anticipation note was rolled over into another note with a principal balance of $350,000 on August 26, 2005. The new note will be paid from the debt service fund. The note matures on August 25, 2006. The interest payment will be $12,180. This note was issued to add to existing buildings.

Capital lease obligations will be paid from the permanent improvement fund. The general obligation bonds will be paid from the debt service fund. Proceeds from the bond issue were used to add classrooms at both buildings and an auditorium at the high school. Compensated absences will be paid from the general, food service, Title I and Title II-A funds.

The District's overall legal debt margin was $5,225,508 with an unvoted debt margin of $80,572 at June 30, 2006.

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2007 | $130,000 | $81,068 | $211,068 |
| 2008 | 135,000 | 78,417 | 213,417 |
| 2009 | 135,000 | 75,380 | 210,380 |
| 2010 | 140,000 | 70,542 | 210,542 |
| 2011 | 145,000 | 63,767 | 208,767 |
| 2012-2016 | 850,000 | 198,463 | 1,048,463 |
| 2017-2018 | 400,000 | 16,714 | 416,714 |
| *Total* | $1,935,000 | $584,352 | $2,519,352 |

## Note 15 - Capital Leases - Lessee Disclosure

The District entered into a capital lease representing the local share obligation for Ohio School Facilities Commission Project participation, construction of a new administrative building and the purchase of property. At the time that the District entered into the lease, the buildings had not been constructed nor had the land been purchased. The entire amount will be paid to trade contractors for the construction of additions and renovations to the two District school buildings and has paid for the completion of the administration building and to individual owners of property adjacent to District sites. The lease meets the criteria of a capitalized 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 combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

This capital assets acquired by lease have been originally capitalized in the amount of $933,000 with the balance of the $2,058,000 for the local share obligation and deposited it into the Ohio School Facilities Commission Projects Fund until needed for the payment of contractors. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation on this lease was $9,310 leaving a current book value of $923,690 as of June 30, 2006. Principal payments in fiscal year 2006 totaled $61,000 in the governmental funds. The amount owed on the lease is $2,812,999.

In prior years, the District entered into a capitalized lease for a bus garage. The 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 combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets acquired by lease have been originally capitalized in the amount of $350,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation on this lease was $58,654 leaving a current book value of $291,346 as of June 30, 2006. Principal payments in fiscal year 2006 totaled $33,405 in the governmental funds.

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

| | | Amount |
|---|---|---|
| Fiscal Year Ending June 30, | 2007 | $207,480 |
| | 2008 | 208,033 |
| | 2009 | 207,258 |
| | 2010 | 207,248 |
| | 2011 | 206,961 |
| | 2012 - 2016 | 1,036,732 |
| | 2017 - 2021 | 1,031,357 |
| | 2022 - 2026 | 927,946 |
| | 2027 - 2031 | 857,313 |
| | 2032 | 170,490 |
| Total minimum lease payments | | 5,060,818 |
| Less: Amount Representing Interest | | 2,247,819 |
| Present Value of Minimum Lease Payments | | $2,812,999 |

## Note 16 - Set-Aside Calculations and Fund Reserves

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2006, no amount continues to be set aside.

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

| | Textbooks | Capital Improvements | Budget Stabilization |
|---|---|---|---|
| Set-Aside Reserve Balance as of June 30, 2005 | $0 | $0 | $33,458 |
| Current Year Set-Aside Requirement | 147,548 | 147,548 | 0 |
| Qualifying Disbursements | (209,780) | (505,506) | (33,458) |
| Totals | ($62,232) | ($357,958) | $0 |
| Set-Aside Balance Carried Forward to Future Fiscal Years | ($62,232) | $0 | $0 |
| Set-Aside Reserve Balance as of June 30, 2006 | $0 | $0 | $0 |

The District had qualifying disbursements during the fiscal year that reduced the capital improvement set-aside amount to zero. There was no requirement to reserve balances for the three set-asides at the end of fiscal year.

**Note 17 - Jointly Governed Organizations**

*Columbiana County Career and Technical Center* - The Columbiana County Career and Technical Center is a distinct political subdivision of the State of Ohio. The Center is operated under the direction of a Board, consisting of one representative from each of the eight participating Districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Columbiana County Career and Technical Center, Office of the Treasurer, at 9364 State Route 45, Lisbon, Ohio 44432.

*Ohio Mid-Eastern Regional Educational Service Agency* – The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) is a computer service agency whose primary function is to provide information technology to its member school districts with the emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting; career guidance services; special education records; test scoring and EMIS.

OME-RESA is one of twenty-five regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member school districts.

OME-RESA is owned and operated by forty-five member districts in eleven different counties. The superintendents from each member school district comprise the General Assembly. The General Assembly elects the Board of Directors consisting of a representative from each county within the approved geographic area. The superintendent of the fiscal agent district serves as chairman and the board elects a vice-chair annually. The Jefferson County Educational Service Center, Steubenville, Ohio acts as the fiscal agent for OME-RESA and assumes the budgetary responsibility. The District contributed $19,434 for various fees associated with the agency's services during the 2006 fiscal year. To obtain financial information write to Jefferson County Educational Service Center, Office of the Treasurer, 2023 Sunset Boulevard, Steubenville, Ohio 43952.

*Portage Area School Consortium* The Portage Area School Consortium was established in 1981 so that 12 educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverage as a group. The Health and Welfare Trust is organized under the provisions of Section 501(c)(9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. Also, the insurance agreement with Portage County School Consortium provides that the consortium will reinsure through commercial companies for claims over $150,000 per employee. Although the District does not participate in the day-to-day management of the consortium, one of its administrators serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims. The Portage County Educational Service Center acts as the fiscal agent for the consortium.

*Ohio Schools' Council* The Ohio Schools' Council Association (Council) is jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control is exercised by any school district is limited to its representation on the Board. In fiscal year 2006, no fees were paid to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131

The District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board, issued $119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates their agreement, they are required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

## Note 18 - Insurance Purchasing Pools

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

## Note 19 – Contingencies

### A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

### B. Litigation

The District was not a party to any legal proceedings during the 2006 fiscal year.

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**LISBON EXEMPTED VILLAGE SCHOOL DISTRICT**
**COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**
**FOR THE 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** |
|---|---|---|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | | | | |
| *Passed Through Ohio Department of Education:* | | | | | | |
| Food Distribution Program | N/A | 10.550 | | $20,477 | | $20,477 |
| Nutrition Cluster: | | | | | | |
| National School Breakfast Program | 2005 05-PU | 10.553 | 4,560 | | 4,560 | |
| | 2006 05-PU | | 28,536 | | 28,536 | |
| Total National School Breakfast Program | | | 33,096 | | 33,096 | |
| National School Lunch Program | 2005 LL-P4 | 10.555 | 23,411 | | 23,411 | |
| | 2006 LL-P4 | | 135,409 | | 135,409 | |
| Total National School Lunch Program | | | 158,820 | | 158,820 | |
| Total Nutrition Cluster | | | 191,916 | | 191,916 | |
| **Total U.S. Department of Agriculture** | | | **191,916** | **20,477** | **191,916** | **20,477** |
| **U.S. DEPARTMENT OF EDUCATION** | | | | | | |
| *Passed Through Ohio Department of Education:* | | | | | | |
| Title I Grants to Local Educational Agencies | C1-S1 2005 | 84.010 | 27,740 | | 38,818 | |
| | C1-S1 2006 | | 207,770 | | 194,236 | |
| Total Title I Grants to Local Educational Agencies | | | 235,510 | | 233,054 | |
| Title V - Innovation Program Grant | C2-S1 2006 | 84.298 | 2,312 | | 3,018 | |
| Drug Free School Grant | DR-S1 2005 | 84.186 | 123 | | 123 | |
| | DR-S1 2006 | | 5,374 | | 6,523 | |
| Total Drug Free School Grant | | | 5,497 | | 6,646 | |
| Title II-A Grant | TR-S1-2005 | 84.367 | 4,108 | | 9,112 | |
| | TR-S1-2006 | | 59,111 | | 58,161 | |
| Total Title II-A Grant | | | 63,219 | | 67,273 | |
| Title II-D Grant | TJ-S1 2005 | 84.318 | 25 | | 25 | |
| | TJ-S1 2006 | | 3,993 | | 3,993 | |
| Total Title II-D Grant | | | 4,018 | | 4,018 | |
| **Total Department of Education** | | | **310,556** | | **314,009** | |
| **Total Federal Receipts and Expenditures** | | | **$502,472** | **$20,477** | **$505,925** | **$20,477** |

*The accompanying notes to this schedule are an integral part of this schedule.*

**LISBON EXEMPTED VILLAGE SCHOOL DISTRICT**
**COLUMBIANA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES**
**JUNE 30, 2006**

## NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

## NOTE B -- FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants and local receipts. It is assumed federal monies are expended first.

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Lisbon Exempted Village School District
Columbiana County
317 North Market Street
Lisbon, Ohio 44432

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 Lisbon Exempted Village School District, Columbiana County, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 16, 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 16, 2007, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

April 16, 2007

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

Lisbon Exempted Village School District
Columbiana County
317 North Market Street
Lisbon, Ohio 44432

To the Board of Education:

**Compliance**

We have audited the compliance of the Lisbon Exempted Village School District, Columbiana County, (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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

**Internal Control Over Compliance**

The District's management 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 District's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

April 16, 2007

**SCHEDULE OF FINDINGS**
***OMB CIRCULAR A -133 ' .505***

**LISBON EXEMPTED VILLAGE SCHOOL DISTRICT**
**COLUMBIANA COUNTY**
**JUNE 30, 2006**

## 1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Mary Taylor, CPA
Auditor of State

**LISBON EXEMPTED VILLAGE SCHOOL DISTRICT**

**COLUMBIANA 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**
**JUNE 12, 2007**

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