



Mary Taylor, CPA  
Auditor of State



**MANCHESTER LOCAL SCHOOL DISTRICT  
ADAMS COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	15
Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund .....	17
Statement of Fiduciary Net Assets – Fiduciary Fund.....	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund .....	19
Notes to the Financial Statements .....	21
Federal Awards Expenditures Schedule .....	53
Notes to Federal Awards Expenditures Schedule .....	54
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	57
Schedule of Findings.....	59

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Manchester Local School District  
Adams County  
130 Wayne Frye Drive  
Manchester, Ohio 45144

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 Manchester Local School District, Adams 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 Manchester Local School District, Adams County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the 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 May 17, 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.

Managements 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 expenditures 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 also not a required part of the basic financial statements. We subjected the federal awards expenditures 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

May 17, 2007

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

---

As management of the Manchester Local School District, we offer readers of the Manchester Local School District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2006. We encourage readers to consider the information presented here to enhance their understanding of the School District's financial performance.

The Manchester Local School District was organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The District was created by the South Central Ohio Educational Service Center on January 13, 2004. Formerly, the Manchester Local School District territory was a part of Adams County/Ohio Valley School District. The State Department of Education granted the District a school district charter on April 13, 2004 and the School District started formal operations on July 1, 2004.

### **Financial Highlights**

The assets of the School District exceeded its liabilities at June 30, 2006 by \$2,992,603 which represents a 130 percent increase from 2005. The increase is the result of the yearly payment of debt and the addition of land and construction in progress in capital assets.

General revenues accounted for \$12,885,181 or 88.2 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants, contributions, and interest, and capital grants, contributions and interest accounted for \$1,728,876 or 11.8 percent of total revenues of \$14,614,057.

The School District had \$11,598,248 in expenses; 14.9 percent of these expenses were offset by program specific charges for services and sales and operating grants, contributions and interest, and capital grants, contributions and interest. General revenues (primarily grants and entitlements and property taxes) of \$12,885,181 were adequate to provide for the remaining cost of these programs.

### **Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, or an entire operating entity.

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

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

---

**Reporting the Manchester Local School District as a Whole**

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that demonstrates how the School District did financially during 2006. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

All of the School District's programs and services provided are reported as governmental activities. These activities include instruction, support services and non-instructional services.

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

**Fund Financial Statements**

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds which are the General Fund, the Debt Service Fund, and the Construction Fund.

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

**Fiduciary Funds** - The School District's fiduciary funds are a private purpose trust fund and an agency fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.



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

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal years 2006 and 2005:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$14,232,984	\$11,696,795
Capital Assets, Net	12,894,276	12,090,564
Total Assets	<u>27,127,260</u>	<u>23,787,359</u>
Liabilities		
Long-Term Liabilities	16,920,181	17,433,388
Other Liabilities	7,214,476	6,377,177
Total Liabilities	<u>24,134,657</u>	<u>23,810,565</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	(3,421,999)	(4,760,246)
Restricted	1,887,457	1,837,397
Unrestricted	4,527,145	2,899,643
Total Net Assets	<u>\$2,992,603</u>	<u>(\$23,206)</u>

Total assets increased \$3,339,901. Equity in Pooled Cash and Cash Equivalents increased \$2,443,284 due to deregulation revenues being saved for the construction of the New Manchester Elementary. Capital assets in the area of land increased \$1,123,526 due to the purchase of land and the New Elementary site work started in May, 2006.

Total liabilities increased \$324,092. Contracts Payable increased \$197,832 due to the New Elementary construction site contracts. Accrued Wages and Benefits increased \$71,072 due to a full year of employee costs from the previous year of ten months of employee costs. Accounts Payable increased \$42,375 due to the purchase of textbooks. Deferred Revenue increased \$650,654 due to the district becoming its own taxing entity. Intergovernmental Payables decreased by \$135,477 due to the district collecting its own taxes and not depending upon Adams County/Ohio Valley School District for its tax collection. Long-term liabilities decreased \$513,207 due to debt payments made during the school year.

Total Net Assets increased \$3,015,809. Unrestricted Net Assets increased \$1,627,502 due to the deregulation revenues being saved for the construction of the New Elementary. The value of Invested in Capital Assets, Net of Related Debt increased \$1,338,247 due to the debt payments made during the year and the acquisition of land, site improvements and equipment/vehicles.

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

Table 2 shows the changes in net assets for fiscal years 2006 and 2005.

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

	2006	2005	% Change
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$545,652	\$511,898	7%
Operating Grants, Contributions, and Interest	1,084,890	1,092,230	-1%
Capital Grants and Contributions	98,334	19,816	396%
Total Program Revenues	<u>1,728,876</u>	<u>1,623,944</u>	6%
General Revenues:			
Property Taxes	3,973,819	0	100%
Grants and Entitlements not Restricted to Specific Programs	8,752,471	13,562,196	-35%
Gifts and Donations	0	1,675	-100%
Investment Earnings	146,832	50,215	192%
Miscellaneous	12,059	40,527	-70%
Total General Revenues	<u>12,885,181</u>	<u>13,654,613</u>	-6%
Total Revenues	<u>14,614,057</u>	<u>15,278,557</u>	-4%
Program Expenses:			
Instruction			
Regular	4,076,583	3,542,993	15%
Special	1,508,153	1,495,434	1%
Vocational	816,454	741,065	10%
Support Services			
Pupils	495,227	546,469	-9%
Instructional Staff	403,804	329,071	23%
Board of Education	64,467	154,100	-58%
Administration	735,691	782,250	-6%
Fiscal	355,906	308,098	16%
Operation and Maintenance of Plant	809,363	762,026	6%
Pupil Transportation	581,221	467,298	24%
Operation of Non-Instructional Services:			
Food Services	534,049	498,778	7%
Extracurricular Activities	243,532	197,784	23%
Interest and Fiscal Charges	973,798	1,046,483	-7%
Total Expenses	<u>11,598,248</u>	<u>10,871,849</u>	7%
Change in Net Assets	3,015,809	4,406,708	-32%
Net Assets at Beginning of Year	(23,206)	(4,429,914)	-99%
Net Assets at End of Year	<u>\$2,992,603</u>	<u>(\$23,206)</u>	-12996%

The statement of activities shows the cost of program services and the charges for services and sales and operating grants, contributions and interest, and capital grants, contributions and interest offsetting those services.

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

---

The large percentage changes between fiscal year 2004-2005 and 2005-2006 are due to the extraordinary expenses incurred due to the creation of the district during the separation from Adams County/Ohio Valley School District. Most of the employees which are 9 month employees were added to the payroll in September, 2004, thus creating 10 months of payroll expenses in fiscal year 2005. This has caused the double digit percentage increases in the program expenses due to the comparison of 10 month expenses to 12 month expenses. Legal fees under the Board of Education were 53% higher in fiscal year 2005 due to the creation of the district and the pending lawsuit expenses against DP&L concerning tax valuations on equipment. Interest revenue increased significantly in fiscal 2006 due to an improved cash balance. Tax revenues increased 100% due to the district becoming a taxing entity in fiscal year 2006.

Net assets at the end of the year improved due to the additional funds on hand from deregulation revenues that will be used for the construction costs of the New Elementary, the reduction of debt due to the payments made during the year and the acquisition of fixed assets.

Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

(Table 3)

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Instruction	\$6,401,190	\$5,779,492	(\$5,384,980)	(\$4,853,763)
Support Services	3,445,679	3,349,312	(3,346,523)	(3,216,806)
Operation of Non-Instructional Services	534,049	498,778	(5,494)	(27,330)
Extracurricular Activities	243,532	197,784	(158,577)	(103,523)
Interest and Fiscal Charges	973,798	1,046,483	(973,798)	(1,046,483)
<b>Total Expenses</b>	<b>\$11,598,248</b>	<b>\$10,871,849</b>	<b>(\$9,869,372)</b>	<b>(\$9,247,905)</b>

**The School District's Funds**

Information about the School District's major funds starts on page 13. The School District's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$14,848,548 and expenditures of \$12,945,062.

The General Fund saw an increase in fund balance of \$695,864. This increase was due to a decrease in transfers out to the Construction fund. The Debt Service fund saw a fund balance increase \$254,499 due to revenues exceeding the required principal and interest payments. The Construction fund also saw an increase in fund balance \$980,524 which was due primarily to a transfer in from the General Fund.

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

---

**General Fund - Budget Highlights**

The School District's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The School District's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$147,427 more than the final budgeted amount for the General Fund. Actual revenues were \$3,873 below final budgeted revenues. Final budgeted expenditures were \$151,300 more than actual expenditures. Original budgeted revenues were \$440,388 less than final budgeted revenues due to increases in property taxes, interest, and tuition/fee monies received during the year. Original budgeted appropriations were \$133,352 more than final budgeted expenditures. These differences represent cyclical changes that occur throughout the year and are not known at the time the original budgets are prepared.

**Capital Assets**

At the end of fiscal year 2006 the School District had \$12,894,276 invested in capital assets.

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

	Governmental Activities	
	2006	2005
Land	\$671,057	\$566,358
Construction in Process	1,018,827	0
Land Improvements	490,444	501,212
Buildings and Improvements	9,747,476	9,967,737
Furniture, Fixtures and Equipment	489,884	561,895
Vehicles	476,588	493,362
Totals	\$12,894,276	\$12,090,564

For more information on capital assets, see Note 9 to the basic financial statements.

**Debt**

At June 30, 2006, the School District had \$16,316,275 in bonds and loans outstanding, with \$635,753 due within one year. Table 5 summarizes bonds outstanding:

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

---

(Table 5)  
Outstanding Debt, at Year-End

	2006	2005
General Obligation Bonds:		
1995 4.55%-5.25% School Improvement Bonds	\$15,885,660	\$16,343,460
2002 4.33-5.92% Energy Conservation Bonds	399,158	454,094
1998 4.87% School Improvement Bonds	27,468	41,202
1987 EPA	3,989	12,054
Totals	\$16,316,275	\$16,850,810

The School District's overall legal debt margin was \$6,498,665 with an unvoted debt margin of \$228,839 and an Energy Conservation debt margin of \$1,660,393 at June 30, 2006.

For more information on debt, refer to the note 14 to the basic financial statements.

**Current Issues**

The School District is planning the construction of a new elementary building to be attached to the present high school with some minor renovation work to the high school. Site work started in May, 2006. The estimated completion of the new elementary is fall, 2008 with an estimated total cost of \$16,500,000.

On August 17, 2006 the School District entered into a Lease-Purchase Agreement for \$9,059,000 with the OASBO Expanded Asset Pooled Financing Program to finance the construction of the New Manchester Elementary. The payments began on November 1, 2006 with the last payment scheduled on May 1, 2012.

The School District opened bids for the construction of the New Elementary building on November 16, 2006. The Board took action on November 22<sup>nd</sup> and awarded the following contracts:

General – J & H Reinforcing & Structural Erectors, Inc.	\$7,420,000
Plumbing – B. B. & E., Inc.	\$ 628,000
HVAC – B. B. & E., Inc.	\$1,746,700
Electrical – Sidewinder Electric Co., Inc.	\$1,317,900
Fire Protection – Emerald Fire Protection LLC	\$ 170,525

The technology contracts were awarded at the January 29, 2007 board meeting as follows:

Communications Cabling – Structured Cabling Systems, Inc	\$284,000
Data Network Telecom – Nor-Com Inc	\$339,000
Video Dist. and Sound System – American Sound and Electronics	\$277,900
Security – American Sound and Electronics, Inc	\$137,800

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

---

The sewer extension contract was awarded at the April 11, 2007 board meeting to Unger Construction LTD in the amount of \$137,700.

The School District will lose seventeen million dollars (\$17,000,000) over the next ten years due to a legislative change in the deregulation law. The District has contacted their representatives and have been in discussion about a possible reversal, however they have not had any success. The District has already begun cost reductions as a result of this legislative change.

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

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Karen Ballengee, Treasurer, Manchester Local School District, 130 Wayne Frye Drive, Manchester, Ohio, 45144.

**Manchester Local School District**

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$7,633,009
Prepaid Items	25,179
Materials and Supplies Inventory	42,440
Intergovernmental Receivable	130,993
Taxes and Other Local Receivable	6,318,656
Interest Receivable	80,611
Accounts Receivable	2,096
Capital Assets:	
Land	1,689,884
Depreciable Capital Assets, Net	<u>11,204,392</u>
Total Assets	<u>27,127,260</u>
<b>Liabilities</b>	
Accounts Payable	82,298
Accrued Wages and Benefits	730,647
Contracts Payable	212,332
Intergovernmental Payable	143,509
Due to Students	1,170
Deferred Revenue	5,950,597
Accrued Interest Payable	77,951
Matured Compensated Absences Payable	15,972
Long-Term Liabilities:	
Due Within One Year	665,320
Due in More Than One Year	<u>16,254,861</u>
Total Liabilities	<u>24,134,657</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	(3,421,999)
Restricted for:	
Debt Service	1,734,651
Other Purposes	152,806
Unrestricted	<u>4,527,145</u>
Total Net Assets	<u><u>\$2,992,603</u></u>

See Accompanying Notes to the Basic Financial Statements

**Manchester Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Charges for Services and Sales	Operating Grants Contributions and Interest	Capital Grants and Contributions		
Expenses					
<b><u>Governmental Activities:</u></b>					
Instruction:					
Regular	\$4,076,583	\$272,650	\$98,451	\$98,334	(\$3,607,148)
Special	1,508,153	18,427	528,348	0	(961,378)
Vocational	816,454	0	0	0	(816,454)
Support Services:					
Pupils	495,227	0	51,350	0	(443,877)
Instructional Staff	403,804	0	20,888	0	(382,916)
Board of Education	64,467	0	0	0	(64,467)
Administration	735,691	0	13,473	0	(722,218)
Fiscal	355,906	0	125	0	(355,781)
Operation and Maintenance of Plant	809,363	1,011	0	0	(808,352)
Pupil Transportation	581,221	0	12,309	0	(568,912)
Operation of Non-Instructional Services:					
Food Services	534,049	168,609	359,946	0	(5,494)
Extracurricular Activities	243,532	84,955	0	0	(158,577)
Interest and Fiscal Charges	973,798	0	0	0	(973,798)
<b>Total Governmental Activities</b>	<b><u>\$11,598,248</u></b>	<b><u>\$545,652</u></b>	<b><u>\$1,084,890</u></b>	<b><u>\$98,334</u></b>	<b><u>(9,869,372)</u></b>
General Revenues:					
Property Taxes Levied for:					
General Purposes					3,186,710
Debt Service					787,109
Grants and Entitlements not					
Restricted to Specific Programs					8,752,471
Investment Earnings					146,832
Miscellaneous					12,059
<b>Total General Revenues</b>					<b><u>12,885,181</u></b>
Change in Net Assets					3,015,809
Net Assets Beginning of Year					<u>(23,206)</u>
Net Assets End of Year					<u><u>\$2,992,603</u></u>

See Accompanying Notes to the Basic Financial Statements



**Manchester Local School District**

Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Debt Service	Construction	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$2,420,855	\$1,773,867	\$ 3,233,745	\$204,542	\$7,633,009
Receivables:					
Property and Other Local Taxes	5,283,146	1,035,510	0	0	6,318,656
Intergovernmental	156	0	0	130,837	130,993
Interest	51,076	0	28,284	1,251	80,611
Accounts	1,519	0	0	577	2,096
Interfund	18,335	0	0	0	18,335
Prepaid Items	9,729	0	13,600	1,850	25,179
Materials and Supplies Inventory	33,685	0	0	8,755	42,440
<b>Total Assets</b>	<b><u>\$7,818,501</u></b>	<b><u>\$2,809,377</u></b>	<b><u>3,275,629</u></b>	<b><u>\$347,812</u></b>	<b><u>\$14,251,319</u></b>
<b>Liabilities</b>					
Accounts Payable	\$64,559	\$0	\$14,727	\$3,012	\$82,298
Accrued Wages and Benefits	636,755	0	0	93,892	730,647
Intergovernmental Payable	127,961	0	0	15,548	143,509
Deferred Revenue	5,137,805	989,109	11,739	38,408	6,177,061
Interfund Payable	0	0	0	18,335	18,335
Matured Compensated Absences Payable	15,972	0	0	0	15,972
Contracts Payable	0	0	212,332	0	212,332
Due to Students	0	0	0	1,170	1,170
<b>Total Liabilities</b>	<b><u>5,983,052</u></b>	<b><u>989,109</u></b>	<b><u>238,798</u></b>	<b><u>170,365</u></b>	<b><u>7,381,324</u></b>
<b>Fund Balances</b>					
Reserved for Encumbrances	69,146	0	154,346	23,163	246,655
Reserved for Property Taxes	145,931	42,032	0	0	187,963
Unreserved:					
Undesignated, Reported in:					
General Fund	1,620,372	0	0	0	1,620,372
Special Revenue Funds	0	0	0	154,284	154,284
Debt Service Fund	0	1,778,236	0	0	1,778,236
Capital Projects Funds	0	0	2,882,485	0	2,882,485
<b>Total Fund Balances</b>	<b><u>1,835,449</u></b>	<b><u>1,820,268</u></b>	<b><u>3,036,831</u></b>	<b><u>177,447</u></b>	<b><u>6,869,995</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$7,818,501</u></b>	<b><u>\$2,809,377</u></b>	<b><u>\$3,275,629</u></b>	<b><u>\$347,812</u></b>	<b><u>\$14,251,319</u></b>

See Accompanying Notes to the Basic Financial Statements

**Manchester Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2006

**Total Governmental Fund Balances** \$6,869,995

***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. These assets consist of:

Land	671,057	
Work in Process	1,018,827	
Capital assets	15,419,936	
Accumulated depreciation	(4,215,544)	
Total capital assets	12,894,276	12,894,276

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	155,118	
Intergovernmental	37,889	
Interest	33,457	226,464

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(16,316,275)	
Accrued interest on bonds	(77,951)	
Compensated absences	(603,906)	
	(16,998,132)	(16,998,132)

**Net Assets of Governmental Activities** \$2,992,603

See Accompanying Notes to the Basic Financial Statements

**Manchester Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006

	General	Debt Service	Construction	All Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property and Other Local Taxes	\$3,065,958	\$752,743	\$0	\$0	\$3,818,701
Intergovernmental	8,184,183	946,916	0	1,097,846	10,228,945
Interest	131,342	0	89,185	3,815	224,342
Tuition and Fees	291,077	0	0	0	291,077
Extracurricular Activities	0	0	0	64,381	64,381
Customer Services	0	0	0	168,609	168,609
Rent	7,989	0	0	0	7,989
Gifts and Donations	0	0	0	7,393	7,393
Miscellaneous	18,830	0	100	18,181	37,111
<b>Total Revenues</b>	<b>11,699,379</b>	<b>1,699,659</b>	<b>89,285</b>	<b>1,360,225</b>	<b>14,848,548</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	3,781,850	0	117,034	101,910	4,000,794
Special	911,306	0	0	549,700	1,461,006
Vocational	813,435	0	0	0	813,435
Support Services:					
Pupils	418,072	0	0	62,917	480,989
Instructional Staff	380,133	0	0	16,835	396,968
Board of Education	64,467	0	0	0	64,467
Administration	689,656	0	0	13,473	703,129
Fiscal	308,737	38,066	0	125	346,928
Operation and Maintenance of Plant	784,525	0	0	0	784,525
Pupil Transportation	567,848	0	0	0	567,848
Operation of Non-Instructional Services:					
Food Services	9,544	0	0	539,232	548,776
Extracurricular Activities	160,314	0	0	86,131	246,445
Capital Outlay	0	0	1,018,827	0	1,018,827
Debt Service:					
Principal	0	534,535	0	0	534,535
Interest	0	976,390	0	0	976,390
<b>Total Expenditures</b>	<b>8,889,887</b>	<b>1,548,991</b>	<b>1,135,861</b>	<b>1,370,323</b>	<b>12,945,062</b>
Excess of Revenues Over (Under) Expenditures	2,809,492	150,668	(1,046,576)	(10,098)	1,903,486
<b>Other Financing Sources (Uses):</b>					
Transfers In	0	103,831	2,000,000	10,000	2,113,831
Transfers Out	(2,113,831)	0	0	0	(2,113,831)
Proceeds from Sale of Capital Assets	203	0	27,100	0	27,303
<b>Total Other Financing Sources (Uses)</b>	<b>(2,113,628)</b>	<b>103,831</b>	<b>2,027,100</b>	<b>10,000</b>	<b>27,303</b>
Net Change in Fund Balances	695,864	254,499	980,524	(98)	1,930,789
Fund Balances at Beginning of Year	1,139,585	1,565,769	2,056,307	177,545	4,939,206
Fund Balances at End of Year	<u>\$1,835,449</u>	<u>\$1,820,268</u>	<u>\$3,036,831</u>	<u>\$177,447</u>	<u>\$6,869,995</u>

See Accompanying Notes to the Basic Financial Statements

**Manchester Local School District**  
 Reconciliation of the Change 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** \$1,930,789

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed asset additions	1,359,030	
Depreciation expense	<u>(438,886)</u>	
Excess of capital outlay under depreciation expense		920,144

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Proceeds from Sale of Capital Assets	(27,303)	
Loss on Disposal of Capital Assets	<u>(89,129)</u>	
		(116,432)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent Property Taxes	(240,180)	
Intergovernmental	(5,396)	
Interest	24,834	
Accounts	<u>(13,749)</u>	
		(234,491)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Bond principal retirement	526,470	
Loan principal retirement	<u>8,065</u>	
		534,535

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

Decrease in accrued interest	2,592	
Increase in compensated absences	(21,328)	
Total additional expenditures		<u>(18,736)</u>

**Change in Net Assets of Governmental Activities** \$3,015,809

See Accompanying Notes to the Basic Financial Statements

**Manchester Local School District**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
**GENERAL FUND**  
*For the Fiscal Year Ended June 30, 2006*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 2,515,000	\$ 2,907,203	\$ 2,899,418	\$ (7,785)
Intergovernmental	8,524,908	8,469,203	8,469,210	7
Interest	60,000	133,135	137,016	3,881
Tuition and Fees	252,440	288,333	288,333	0
Rent	14,500	14,942	14,967	25
Miscellaneous	27,000	21,420	21,419	(1)
<b>Total Revenues</b>	<u>11,393,848</u>	<u>11,834,236</u>	<u>11,830,363</u>	<u>(3,873)</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,992,575	3,854,118	3,796,948	57,170
Special	945,723	928,806	920,796	8,010
Vocational	873,874	909,244	884,057	25,187
<b>Support Services:</b>				
Pupils	426,754	425,663	422,139	3,524
Instructional Staff	361,684	373,047	364,589	8,458
Board of Education	77,669	72,650	69,775	2,875
Administration	696,692	715,127	711,298	3,829
Fiscal	308,958	312,617	311,528	1,089
Operation and Maintenance of Plant	886,959	826,948	820,214	6,734
Pupil Transportation	590,194	603,168	583,728	19,440
<b>Operation of Non-Instructional Services:</b>				
Food Service Operations		9,544	9,544	
<b>Extracurricular Activities:</b>				
Academic Oriented Activities	24,871	34,823	33,311	1,512
Sport Oriented Activities	150,381	142,222	128,750	13,472
<b>Capital Outlay:</b>				
Site Improvement Services	15,000	10,005	10,005	
<b>Total Expenditures</b>	<u>9,351,334</u>	<u>9,217,982</u>	<u>9,066,682</u>	<u>151,300</u>
<b>Excess of Revenues Over Expenditures</b>	<u>2,042,514</u>	<u>2,616,254</u>	<u>2,763,681</u>	<u>147,427</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Proceeds from Sale of Fixed Assets	2,000	203	203	
Advances In	7,177	7,177	7,177	
Transfers Out	(2,301,973)	(2,113,831)	(2,113,831)	
Advances Out		(18,335)	(18,335)	
<b>Total Other Financing Sources and Uses</b>	<u>(2,292,796)</u>	<u>(2,124,786)</u>	<u>(2,124,786)</u>	
<b>Net Change in Fund Balances</b>	<u>(250,282)</u>	<u>491,468</u>	<u>638,895</u>	<u>147,427</u>
<b>Fund Balance at Beginning of Year</b>	1,432,480	1,432,480	1,432,480	
<b>Prior Year Encumbrances Appropriated</b>	<u>237,140</u>	<u>237,140</u>	<u>237,140</u>	
<b>Fund Balance at End of Year</b>	<u>\$ 1,419,338</u>	<u>\$ 2,161,088</u>	<u>\$ 2,308,515</u>	<u>\$ 147,427</u>

See accompanying notes to the basic financial statements

**Manchester Local School District**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$23,156	\$22,474
<b>Liabilities</b>		
Undistributed Monies	0	\$22,474
<b>Net Assets</b>		
Held in Trust for Scholarships	\$23,156	

See Accompanying Notes to the Basic Financial Statements

**Manchester Local School District**  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006

	Private Purpose Trust
	Scholarship
<b>Additions:</b>	
Gifts and Contributions	\$19,629
Interest	(25)
	19,604
<b>Deductions:</b>	
Scholarships Awarded	5,125
	14,479
Change in Net Assets	14,479
Net Assets Beginning of Year	8,677
Net Assets End of Year	\$23,156

See Accompanying Notes to the Basic Financial Statements

**This page intentionally left blank.**



**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The Manchester Local School District was established in 2004 through the deconsolidation of existing land areas in the Adams County/Ohio Valley School District. The School District serves an area of approximately 115 square miles. It is located in Adams Counties, and includes the Villages of Manchester and Rome, all of Manchester Township, portions of Green, Monroe and Spriggs Townships. The School District is staffed by 42 non-certificated employees, 75 certificated teaching personnel and 7 administrative employees who provide services to 897 students and other community members. The School District currently operates 3 instructional buildings and 1 bus garage.

*Reporting Entity:*

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

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

The School District participates in two jointly governed organizations and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Schools of Ohio Risk Sharing Authority, and the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan (GRP). These organizations are presented in Notes 17 and 18 of the basic financial statements.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Manchester Local 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

### **A. Basis of Presentation**

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

#### *Government-wide Financial Statements*

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 School 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 School District.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Fund Financial Statements*

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

**B. Fund Accounting**

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

*Governmental Funds*

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

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

*Debt Service Fund* - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and certain other long-term obligations when the School District is obligated for the payment.

*Capital Improvement Fund* - The Capital Improvement Fund is used to account for the resources for, and the payment of, construction projects and other asset investments having a useful life over one year.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Fiduciary Funds:*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**C. Measurement Focus**

*Government-wide Financial Statements:*

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

The private purpose trust fund is reported using the economic resources measurement focus.

**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 financial statements 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*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. “Measurable” means the amount of the transaction can be determined, and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, “available” means expected to be received within sixty days of fiscal year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available for advance and grants.

*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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Expenses/Expenditures:*

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**E. Cash and Cash Equivalents**

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

During fiscal year 2006, the School District’s investments were limited to certificate of deposits, commercial paper and federal government agency securities.

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 \$131,342 which includes \$79,656 assigned from other School District funds.

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 School District are presented on the financial statements as cash and cash equivalents.

**F. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of purchased and donated food held for resale and consumable supplies.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**H. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation.

**I. Capital Assets**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 30 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 10 years

**J. Interfund Balances**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

On 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 employees have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**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, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Bonds and loans are recognized as a liability on the governmental 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The government-wide statement of net assets reports \$1,887,457 of restricted net assets, none of which are restricted by enabling legislation.

**N. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute for fiscal year 2006.

**O. Interfund Transactions**

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

**P. Estimates**

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

**Q. Budgetary Process**

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. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

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

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES**

**A. Changes in Accounting Principles**

For fiscal year 2006, the School District has implemented *GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”* and *GASB Statement No. 47, “Accounting for Termination Benefits.”*

*GASB Statement No. 42* establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School District’s financial statements for 2006.

*GASB Statement No. 47* establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

**NOTE 4 – ACCOUNTABILITY**

At June 30, 2006, the Title IIA Special Revenue Fund had a deficit fund balance of \$4,672 and the IDEA Part-B Special Revenue Fund had a deficit fund balance of \$9,694. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

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

---

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School 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 for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. The change of fair value of investments is not included on the budget basis operating statement. This amount is included on the GAAP basis operating statement.

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

Net Change in Fund Balance	
GAAP Basis	\$695,864
Adjustments:	
Revenue Accruals	110,641
Expenditure Accruals	(44,103)
Encumbrances	(132,692)
Advances	(11,158)
Change in Fair Value of Investments	20,343
Budget Basis	\$638,895

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current 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 School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or securities issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
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 (STAR Ohio); and,

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

---

**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

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 School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$4,201,688 of the School District's bank balance of \$4,404,098 was exposed to custodial credit risk because it was uninsured but is collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School 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

As of June 30, 2006, the School District had the following investments, which are in an internal investment pool:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corp Medium Term Notes	\$998,440	8/11/2006
Federal Home Loan Mortgage Corp Medium Term Notes	594,942	11/9/2006
Federal Home Loan Banks Consolidated Bonds	990,630	12/15/2006
Federal Home Loan Mortgage Corporation Notes	497,675	1/22/2007
Federal Home Loan Banks Call Step Notes	497,970	5/1/2009
U.S. Government Securities Fund - Class B	13,664	
	<u>\$3,593,321</u>	

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

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

---

**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

Credit Risk

The Federal Home Loan Mortgage Corporation Discount Notes, Federal Home Loan Mortgage Corporation MTN, Federal Home Loan Banks Consolidated Bonds and Federal Home Loan Banks Call Step Notes carry a rating of Aaa by Moodys. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 Mortgage Corporation Medium Term Notes, Federal Home Loan Banks Consolidated Bonds, Federal Home Loan Mortgage Corporation Notes and Federal Home Loan Banks Call Step Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent in the School District's brokerage account. The School 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 School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 44.5 percent is invested in Federal Home Loan Mortgage Corporation Medium Term Notes, 27.7 percent is invested in Federal Home Loan Banks Consolidated Bonds, 13.9 percent is invested in Federal Home Loan Mortgage Corporation Notes and 13.9 percent is invested in Federal Home Loan Banks Call Step Notes.

**NOTE 7 - PROPERTY TAXES**

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

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

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

---

**NOTE 7 - PROPERTY TAXES** (continued)

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 year 2006 (other than public utility property tax) 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 School District prior to June 30. This year, however, the June 2006 tangible personal property tax from Adams County was not received until July 2006.

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

Accrued property taxes receivable includes 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 at June 30, 2006 was \$145,931 in the General Fund and \$42,032 in the Debt Service Fund. The amount available as an advance at June 30, 2005 was \$216,224 in the General Fund and \$58,637 in the Debt Service 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.

Due to Manchester Local being created by the South Central Ohio Educational Service Center on January 13, 2004, the district did not become a taxing entity until January, 2005. The first levied taxes will be collected in calendar year 2006.

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

---

**NOTE 7 - PROPERTY TAXES** (continued)

The District's assessed values upon which the first half fiscal year 2006 taxes were collected by Adams County/Ohio Valley School District and paid to the District and the assessed values upon which the second half fiscal year 2006 taxes were collected are:

	2005 Second - Half Collections		2006 First - Half Collections	
	Amount	Percentage	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$95,139,360	44.33%	\$95,429,470	41.52%
Public Utility Personal	118,854,920	55.39%	133,856,370	58.23%
Tangible Personal Property	606,280	0.28%	574,030	0.25%
Total Assessed Value	<u>\$214,600,560</u>	<u>100.00%</u>	<u>\$229,859,870</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$32.47		\$32.47	

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2006, consisted of taxes, intergovernmental grants, interest, accounts and interfund. All receivables are considered collectible in full and will be received in one year 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. A summary of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Title I Grant	\$ 66,538
IDEA Part B Grant	23,560
Title II-A Grant	13,907
Title IV Grant	5,602
Title II-D Grant	323
Fresh Fruit/Vegetable Grant	13,988
Summer Federal Food Service	2,599
Adams County Auditor	4,320
OH Dept of Natural Resources	156
Total Intergovernmental Receivables	<u>\$ 130,993</u>



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

---

**NOTE 9 - CAPITAL ASSETS**

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

	Balance at 7/1/05	Additions	Deductions	Balance at 6/30/06
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$566,358	\$104,699	\$0	\$671,057
Construction in Progress	0	1,018,827	0	1,018,827
Total Capital Assets Not Being Depreciated	<u>566,358</u>	<u>1,123,526</u>	<u>0</u>	<u>1,689,884</u>
Capital Assets Being Depreciated:				
Land Improvements	819,684	26,299	0	845,983
Buildings and Improvements	12,517,816	36,541	(27,100)	12,527,257
Furniture, Fixtures and Equipment	1,333,213	116,531	(187,158)	1,262,586
Vehicles	727,977	56,133	0	784,110
Totals Capital Assets, Being Depreciated	<u>15,398,690</u>	<u>235,504</u>	<u>(214,258)</u>	<u>15,419,936</u>
Less Accumulated Depreciation:				
Land Improvements	(318,472)	(37,067)	0	(355,539)
Building and Improvements	(2,550,079)	(230,131)	429	(2,779,781)
Furniture, Fixtures and Equipment	(771,318)	(98,781)	97,397	(772,702)
Vehicles	(234,615)	(72,907)	0	(307,522)
Total Accumulated Depreciation	<u>(3,874,484)</u>	<u>(438,886) *</u>	<u>97,826</u>	<u>(4,215,544)</u>
Total Capital Assets Being Depreciated, Net	<u>11,524,206</u>	<u>(203,382)</u>	<u>(116,432)</u>	<u>11,204,392</u>
Governmental Activities Capital Assets, Net	<u>\$12,090,564</u>	<u>\$920,144</u>	<u>(\$116,432)</u>	<u>\$12,894,276</u>

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

---

**NOTE 9 - CAPITAL ASSETS** (continued)

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

Instruction:	
Regular	\$190,837
Special	44,823
Vocational	10,339
Support Services:	
Pupils	18,036
Instructional Staff	9,078
Administration	15,234
Fiscal	4,923
Operation and Maintenance of Plant	31,722
Pupil Transportation	71,964
Operation of Non-Instructional Services - Food Services	26,578
Extracurricular Activities	15,352
Total Depreciation Expense	<u><u>\$438,886</u></u>

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School District, along with other school districts in Ohio, participates in the Schools of Ohio Risk Sharing Authority, Inc. Plan (SORSA), an insurance purchasing pool. Each individual school district enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the SORSA (See Note 18).

Insurance coverage provided includes the following:

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

---

**NOTE 10 - RISK MANAGEMENT** (continued)

Building and contents (\$1,000 Deductible)	\$24,535,533
Crime Coverage (\$1,000 Deductible)	\$50,000
Fleet Insurance Coverages	
Combined single Limit Liability	\$2,000,000
Auto Medical Payments	5,000/25,000
Uninsured Motorist	1,000,000
Comprehensive and Collision (\$1,000 Deductible)	100,000
Garagekeepers Physical Damage (\$1,000 Deductible)	ACV to maximum of \$100,000
General Liability	
Each Occurrence Limit	2,000,000
General Aggregate Limit	4,000,000
Errors or Omissions Limit (\$5,000 Deductible)	2,000,000
Fire Damage Limit (any one fire)	500,000
Medical Expense (per person/accident)	5,000
Medical Expense (each accident)	25,000

Settled claims have not exceeded this commercial coverage in the past year. There has been no significant change in coverage from the prior year.

**B. Workers' Compensation**

For fiscal year 2006, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [ohsers.org](http://ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, and 2005 were \$107,886 and \$102,886, respectively; 92.29 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005.

**B. State Teachers Retirement System of Ohio**

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

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

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

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, and 2005, were \$693,194, and \$554,952, respectively; 62.39 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal year 2006 were \$4,141 made by the School District and \$31,998 made by the plan members.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS** (continued)

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

All STRS Ohio retirees who participated 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 School District, this amount equaled \$53,323 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 fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

**NOTE 12 - POSTEMPLOYMENT BENEFITS** (continued)

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 of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$50,434.

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 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for teachers, 260 for classified employees and the number of days in each administrator contract. Teachers may accumulate for retirement severance purposes an unlimited number of days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave. The School District offers a super-severance provision for teachers and administrators who retire in their first year of eligibility. Under this policy, payment is made for one-half of the accumulated sick leave credit up to a maximum of one hundred days.

**B. Health Care Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Met Life Insurance Company at the expense of the Board of Education. The School District has elected to provide employee medical/surgical/dental/vision benefits through Medical Mutual. The cost of health, dental and vision premiums are completely paid by the Board of Education.

**NOTE 13 - EMPLOYEE BENEFITS** (continued)

**C. Perfect Attendance Incentive**

Teachers are paid an extra five days at their daily rate for perfect attendance. Teachers with unused personal days at the end of the year are paid at the rate of \$120.00 per day. Eleven and twelve month classified employees with perfect attendance receive \$325.00 and nine and ten month classified employees receive \$250.00.

**D. Deferred Compensation**

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan and the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**NOTE 14 - LONG-TERM OBLIGATIONS**

As a part of the deconsolidation process between the Districts, in accordance to Ohio Revised Code Section 3311.26, Manchester Local School District assumed 45.78% of the outstanding debt. The debt remains in the name of Adams County/Ohio Valley School District and Manchester Local School District sends Adams County/Ohio Valley School District the required 45.78% as payments become due.

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



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

**NOTE 14 – LONG-TERM OBLIGATIONS** (continued)

	Amount Outstanding 7/1/05	Additions	Deductions	Amount Outstanding 6/30/06	Amounts Due in One Year
<i>Governmental Activities:</i>					
School Improvement Bonds 1995 - 4.55% - 5.25%	\$16,343,460	0	\$457,800	\$15,885,660	\$549,360
Energy Conservation Bonds 2002 - 4.33% - 5.92%	454,094	0	54,936	399,158	68,670
School Improvement Bonds 1998 - 4.87%	41,202	0	13,734	27,468	13,734
EPA Asbestos Loan 1987 0%	12,054	0	8,065	3,989	3,989
Compensated Absences	582,578	50,065	28,737	603,906	29,567
Total Governmental Activities Long-Term Obligations	<u>\$17,433,388</u>	<u>\$50,065</u>	<u>\$563,272</u>	<u>\$16,920,181</u>	<u>\$665,320</u>

**School Improvement Bonds 1995**

On May 15, 1995, Adams County/Ohio Valley School District issued \$44,000,000 in voted general obligation bonds for the purpose of building new high schools and improvements to existing buildings. The bonds were issued for a twenty-seven year period with final maturity at December 1, 2021. On July 1, 2004, Manchester Local School District assumed \$16,801,260 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

**Energy Conservation Bonds 2002**

On June 18, 2001, Adams County/Ohio Valley School District issued \$1,293,047 in unvoted general obligation bonds for the purpose of providing energy conservation measures. The bonds were issued for ten years with final maturity at July 2, 2011. On July 1, 2004, Manchester Local School District assumed \$509,030 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

**School Improvement Bonds 1998**

On August 24, 1998, Adams County/Ohio Valley School District issued \$300,000 in unvoted general obligation bonds for the purpose of acquiring a bus garage. The bonds were issued for a nine year period with final maturity at December 1, 2007. On July 1, 2004, Manchester Local School District assumed \$54,936 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

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

---

**NOTE 14 – LONG-TERM OBLIGATIONS** (continued)

EPA Asbestos Loan

On March 25, 1987, Adams County/Ohio Valley School District obtained a loan in the amount of \$317,092 for the purpose of providing asbestos removal for the School District, under the authority of Ohio Revised Code section 3317.22. The loan was issued for a twenty year period with final maturity during fiscal year 2007. On July 1, 2004, Manchester Local School District assumed \$20,119 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

Compensated absences will be paid from the General and Food Service Funds.

The School District's overall legal debt margin was \$6,498,665 with an unvoted debt margin of \$228,839 and an Energy Conservation debt margin of \$1,660,393 at June 30, 2006.

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

**School Improvement Bonds 1995**

Fiscal Year			
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$549,360	\$919,652	\$1,469,012
2008	595,140	889,311	1,484,451
2009	640,920	855,926	1,496,846
2010	686,700	819,405	1,506,105
2011	743,925	774,311	1,518,236
2012-2016	4,749,675	2,963,053	7,712,728
2017-2021	6,386,310	1,282,241	7,668,551
2022	1,533,630	40,258	1,573,888
Total	<u>\$15,885,660</u>	<u>\$8,544,157</u>	<u>\$24,429,817</u>

**Energy Conservation Bonds 2001**

Fiscal Year			
<u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$68,670	\$22,001	\$90,671
2008	82,404	17,360	99,764
2009	82,404	12,482	94,886
2010	82,404	7,603	90,007
2011	83,276	2,725	86,001
Total	<u>\$399,158</u>	<u>\$62,171</u>	<u>\$461,329</u>

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

---

**NOTE 14 – LONG-TERM OBLIGATIONS** (continued)

**School Improvement Bonds 1998**

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Ending June 30, 2007	\$13,734	\$1,004	\$14,738
2008	13,734	335	14,069
Total	<u>\$27,468</u>	<u>\$1,339</u>	<u>\$28,807</u>

**EPA Asbestos Loan 1987**

Fiscal Year	<u>Principal</u>
Ending June 30, 2007	<u>\$3,989</u>

**NOTE 15 – INTERFUND ACTIVITY**

**A. Interfund Transfers**

Transfers made during the year-ended June 30, 2006, were as follows:

Transfer To	<u>Transfer From General Fund</u>
Debt Service Funds	\$103,831
Construction Fund	2,000,000
All Other Nonmajor Governmental Funds	<u>10,000</u>
	<u>\$2,113,831</u>

The transfers were made to make debt payments, establish a capital improvement fund for construction and renovations and cover EMIS expenditures.

**B. Interfund Receivables/Payables**

As of June 30, 2006, receivables and payables that resulted from various interfund transactions were as follows:

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

---

**NOTE 15 – INTERFUND ACTIVITY** (continued)

		<u>Receivable</u> <u>General Fund</u>
<b>Payable</b>	All Other Nonmajor Governmental Funds	<u>\$18,335</u>

The amounts due to the General Fund are the result of the timing of the payment received from the Ohio Department of Education and Adams County Auditor for reimbursement grants. The General Fund will be reimbursed when funds become available in the Food Service Fund and the Family/Children 1<sup>st</sup> Fund.

**NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	<u>Textbooks</u>	<u>Capital</u> <u>Acquisition</u>
Set-aside Reserve Balance as of June 30, 2005	(\$61,319)	\$0
Current Year Set-aside Requirement	126,925	126,925
Current Year Offsets	0	(2,000,000)
Qualifying Disbursements	<u>(226,625)</u>	<u>0</u>
Set-aside Balance Carried		
Forward to Future Years	<u>(\$161,019)</u>	<u>\$0</u>
Set-aside Reserve Balance		
as of June 30, 2006	<u>\$0</u>	<u>\$0</u>

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

**A. South Central Ohio Computer Association (SCOCA)**

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$33,579 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

**B. Hopewell Special Education Regional Resource Center (Hopewell)**

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the Southern Ohio Educational Service District, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Southern Ohio Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and federal and State grants. To obtain financial information write to Hopewell at the Southern Ohio Educational Service District, 62 Laurel Drive, Wilmington, Ohio, 45177.

**NOTE 18 - INSURANCE PURCHASING POOL**

**A. Schools of Ohio Risk Sharing Authority, Inc.**

The School District participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), is a risk sharing pool serving school districts in Ohio. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to District property and persons and property which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and educators' errors and omissions liability insurance.

**NOTE 18 - INSURANCE PURCHASING POOL** (continued)

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one representative on the board at any time. Each member school district's control over the budgetary and financing of SORSA is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 655 Metro Place South, Suite 900, Dublin, Ohio 43017

**B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP) was established through the Ohio Association of School Business Officials (OASBO) as a group insurance purchasing pool.

The GRP's business and affairs are conducted by a five member Board of Directors. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**NOTE 19 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The School District is not party to any legal proceeding.

**NOTE 20 – SUBSEQUENT EVENTS**

On August 17, 2006 the School District entered into a Lease-Purchase Agreement for \$9,059,000 with the OASBO Expanded Asset Pooled Financing Program to finance the construction of the New Manchester Elementary. The payments began on November 1, 2006 with the last payment scheduled on May 1, 2012.

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

---

**NOTE 20 – SUBSEQUENT EVENTS** (Continued)

The School District opened bids for the construction of the New Elementary building on November 16, 2006. The Board took action on November 22<sup>nd</sup> and awarded the following contracts:

General – J & H Reinforcing & Structural Erectors, Inc.	\$7,420,000
Plumbing – B. B. & E., Inc.	\$ 628,000
HVAC – B. B. & E., Inc.	\$1,746,700
Electrical – Sidewinder Electric Co., Inc.	\$1,317,900
Fire Protection – Emerald Fire Protection LLC	\$ 170,525

The technology contracts were awarded at the January 29, 2007 board meeting as follows:

Communications Cabling – Structured Cabling Systems, Inc	\$284,000
Data Network Telecom – Nor-Com Inc	\$339,000
Video Dist. and Sound System – American Sound and Electronics	\$277,900
Security – American Sound and Electronics, Inc	\$137,800

The sewer extension contract was awarded at the April 11, 2007 board meeting to Unger Construction LTD in the amount of \$137,700.

The School District will lose seventeen million dollars (\$17,000,000) over the next ten years due to a legislative change in the deregulation law. The District has contacted their representatives and have been in discussion about a possible reversal, however they have not had any success. The District has already begun cost reductions as a result of this legislative change.

THIS PAGE INTENTIONALLY LEFT BLANK



**MANCHESTER LOCAL SCHOOL DISTRICT  
ADAMS COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disbursements</b>	<b>Non-Cash Disbursements</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$0	\$41,848	\$0	\$41,848
Child Nutrition Cluster:						
School Breakfast Program	05-PU-05	10.553	9,425		9,425	
	05-PU-06	10.553	58,756		58,756	
Total School Breakfast Program			68,181		68,181	
National School Lunch Program	LL-P4-06	10.555	157,251		157,251	
	LL-P1-06	10.555	302		302	
	LL-P4-05	10.555	25,859		25,859	
Total National School Lunch Program			183,412		183,412	
Summer Food Service Program for Children	23-PU-05	10.559	6,990		6,990	
	24-PU-05	10.559	722		722	
Total Summer Food Service Program			7,712		7,712	
Total Child Nutrition Cluster			<b>259,305</b>		<b>259,305</b>	
Fresh Fruit and Vegetable Program	VG-S1-05	10.582	20,629		17,210	
	VG-S1-06	10.582	25,637		35,633	
Total Fresh Fruit and Vegetable Program			<b>46,266</b>		<b>52,843</b>	
Team Nutrition Grant	TW-NT-04	10.574	<b>490</b>		<b>490</b>	
Total U.S. Department of Agriculture			<b>306,061</b>	<b>41,848</b>	<b>312,638</b>	<b>41,848</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title 1 Grants to Local Educational Agencies	C1-S1-05	84.010	37,694		44,095	
	C1-S1-06	84.010	232,746		227,683	
Total Title 1			<b>270,440</b>		<b>271,778</b>	
Special Education - Grants to States	6B-SF-05	84.027	7,486		14,259	
	6B-SF-06	84.027	275,216		274,636	
Total Special Education			<b>282,702</b>		<b>288,895</b>	
Safe and Drug Free Schools and Communities- State Grants	DR-S1-05	84.186	-639		0	
	DR-S1-06	84.186	4,427		3,212	
			<b>3,788</b>		<b>3,212</b>	
Innovative Educational Program Strategies	C2-S1-06	84.298	2,511		2,511	
Technology Literacy Challenge	TJ-S1-06	84.318	4,751		3,751	
Improving Teacher Quality State Grants	TR-S1-05	84.367	8,384		9,447	
	TR-S1-06	84.367	67,668		65,877	
			<b>76,052</b>		<b>75,324</b>	
Total U.S. Department of Education			<b>640,244</b>		<b>645,471</b>	
<b><u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u></b>						
Toxic Substances Compliance Monitoring Cooperative		66.701	<b>0</b>		<b>8,065</b>	
<b>Totals</b>			<b>\$946,305</b>	<b>\$41,848</b>	<b>\$966,174</b>	<b>\$41,848</b>

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

**MANCHESTER LOCAL SCHOOL DISTRICT  
ADAMS COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



# Mary Taylor, CPA

Auditor of State

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

Manchester Local School District  
Adams County  
130 Wayne Frye Drive  
Manchester, Ohio 45144

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 Manchester Local School District, Adams County, Ohio (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 May 17, 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 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 May 17, 2007, we reported a certain 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*.

Manchester Local School District  
Adams County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Governmental Auditing Standards*  
Page 2

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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

May 17, 2007



# Mary Taylor, CPA

## Auditor of State

### 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

Manchester Local School District  
Adams County  
130 Wayne Frye Drive  
Manchester, Ohio 45144

To the Board of Education:

#### Compliance

We have audited the compliance of Manchester Local School District, Adams County, Ohio (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 each of its major federal programs 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 programs. 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 Government's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006. In a separate letter to the District's management dated May 17, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

#### 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.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242  
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

May 17, 2007

**MANCHESTER LOCAL SCHOOL DISTRICT  
ADAMS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States CFDA# 84.027 Nutrition Cluster CFDA# 10.553, 10.555, 10.556, 10.559
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**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

**MANCHESTER LOCAL SCHOOL DISTRICT**  
**ADAMS 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 5, 2007**