

**MIAMI EAST LOCAL SCHOOL DISTRICT**

**Basic Financial Statements**

**June 30, 2006**

**with**

**Independent Auditors' Report**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Miami East Local School District  
3825 North State Route 589  
Casstown, Ohio 45312

We have reviewed the *Independent Auditors' Report* of the Miami East Local School District, Miami County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 5, 2007

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**MIAMI EAST LOCAL SCHOOL DISTRICT**

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**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS  
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Independent Auditors' Report

Board of Education  
Miami East Local School District  
3825 North State Route 589  
Casstown, Ohio 45312

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Miami East Local School District (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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Miami East Local School District as of June 30, 2006, the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clark, Schaefer, Hachitt & Co.*

Springfield, Ohio  
December 1, 2006



**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets decreased \$397,239, which represents an 10.2 percent decrease from 2005.
- General revenues accounted for \$9,875,956 in revenue or 84.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, interest, and contributions, and capital grants, interest, and contributions accounted for \$1,796,136 or 15.4 percent of total revenues of \$11,672,092.
- Total assets of governmental activities decreased by \$349,051 and capital assets decreased by \$556,023.
- The School District had \$12,069,331 in expenses; only \$1,796,136 of these expenses was offset by program specific charges for services, grants, interest, or contributions. General revenues (primarily taxes and grants and entitlements) of \$9,875,956 plus net assets at the beginning of the year of \$3,899,989 provided for these programs.
- The General Fund had \$9,399,852 in revenues and \$9,372,767 in expenditures. The General Fund's fund balance decreased \$125,400 from 2005.

**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 Miami East Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Reporting the School District as a Whole**

**Statement of Net Assets and the Statement of Activities**

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

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

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

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

**Fund Financial Statements**

The analysis of the School District's major funds begins on page 8. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Bond Retirement Fund, Permanent Improvement Fund, and the Classroom Facilities 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 fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2006:

	<b>Table 1</b>		
	<b>Net Assets</b>		
	<b>2005</b>	<b>2006</b>	<b>Change</b>
<b>Assets:</b>			
Current and Other Assets	\$5,513,732	\$5,720,704	\$206,972
Capital Assets	15,694,444	15,138,421	(556,023)
Total Assets	<u>21,208,176</u>	<u>20,859,125</u>	<u>(349,051)</u>
<b>Liabilities:</b>			
Long-Term Liabilities	10,761,452	10,641,888	(119,564)
Other Liabilities	6,546,735	6,714,487	167,752
Total Liabilities	<u>17,308,187</u>	<u>17,356,375</u>	<u>48,188</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Debt	3,989,452	3,738,429	(251,023)
Restricted	782,180	920,849	138,669
Unrestricted (deficit)	(871,643)	(1,156,528)	(284,885)
Total Net Assets	<u>\$3,899,989</u>	<u>\$3,502,750</u>	<u>(\$397,239)</u>

Total assets of governmental activities decreased by \$349,051 and capital assets decreased by \$556,023. Capital assets decreased due to depreciation of existing buildings and equipment. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$284,885 mainly because the School District spent more in fiscal year 2006 than what was taken in for revenue and accretion expense on the capital appreciation bonds.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

<b>Table 2</b>			
<b>Changes in Net Assets</b>			
	<b>2005</b>	<b>2006</b>	<b>Change</b>
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$816,025	\$952,801	\$136,776
Operating Grants, Interest, and Contributions	843,847	830,002	(13,845)
Capital Grants, Interest, and Contributions	20,712	13,333	(7,379)
Total Program Revenues	1,680,584	1,796,136	115,552
General Revenues:			
Property Taxes	3,691,297	3,885,771	194,474
Income Tax	767,727	830,785	63,058
Grants and Entitlements	5,020,493	5,045,900	25,407
Investment Earnings	38,872	58,757	19,885
Miscellaneous	82,697	54,743	(27,954)
Total General Revenues	9,601,086	9,875,956	274,870
Total Revenues	11,281,670	11,672,092	390,422
<b>Program Expenses:</b>			
Instruction:			
Regular	5,391,335	5,329,601	(61,734)
Special	908,662	824,324	(84,338)
Vocational	126,569	126,271	(298)
Support Services:			
Pupils	528,159	634,539	106,380
Instructional Staff	356,170	295,588	(60,582)
Board of Education	74,848	75,988	1,140
Administration	976,902	973,025	(3,877)
Fiscal	311,283	332,920	21,637
Business	56,051	51,438	(4,613)
Operation and Maintenance of Plant	864,949	1,013,902	148,953
Pupil Transportation	785,331	767,202	(18,129)
Central	342,556	199,419	(143,137)
Operation of Non-Instructional Services	438,977	439,855	878
Extracurricular Activities	384,906	397,796	12,890
Interest and Fiscal Charges	571,349	607,463	36,114
Total Expenses	12,118,047	12,069,331	(48,716)
Decrease in Net Assets	(836,377)	(397,239)	439,138
Net Assets Beginning of Year	4,736,366	3,899,989	
Net Assets End of Year	\$3,899,989	\$3,502,750	

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 33.3 percent of revenues for governmental activities for the School District for fiscal year 2006.

Instruction comprises 52.0 percent of School District expenses. Support services expenses make up 36.0 percent of the expenses. Administration and fiscal/business services comprise 11.2 percent of School District expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. 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 tax revenue and unrestricted State entitlements.

**Table 3**

	<b>Total Cost of Services 2005</b>	<b>Net Cost Of Services 2005</b>	<b>Total Cost of Services 2006</b>	<b>Net Cost of Services 2006</b>
Instruction	\$6,426,566	(\$5,531,788)	\$6,280,196	(\$5,380,975)
Support Services:				
Pupils	528,159	(406,328)	634,539	(417,004)
Instructional Staff	356,170	(274,925)	295,588	(248,369)
Board of Education	74,848	(74,848)	75,988	(75,988)
Administration	976,902	(972,172)	973,025	(957,738)
Fiscal	311,283	(307,575)	332,920	(322,589)
Business	56,051	(56,051)	51,438	(51,438)
Operation and Maintenance of Plant	864,949	(862,857)	1,013,902	(1,013,902)
Pupil Transportation	785,331	(756,976)	767,202	(723,099)
Central	342,556	(309,106)	199,419	(182,169)
Operation of Non- Instructional Services	438,977	(25,708)	439,855	4,735
Extracurricular Activities	384,906	(287,780)	397,796	(297,196)
Interest and Fiscal Charges	571,349	(571,349)	607,463	(607,463)
<b>Total Expenses</b>	<u>\$12,118,047</u>	<u>(\$10,437,463)</u>	<u>\$12,069,331</u>	<u>(\$10,273,195)</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the district.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expense related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment, and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Instruction activities are supported through taxes and other general revenues by 85.7 percent; for all activities general revenue support is 85.1 percent.

### **The School District's Funds**

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,647,715 and expenditures of \$11,642,883. The net change in fund balances for the year in the General Fund, the Bond Retirement Fund, the Permanent Improvement Fund, and the Classroom Facilities Funds were (\$125,400), \$64,836, \$59,665, and (\$15,793), respectively.

The net change in fund balance in the General Fund was caused by increases in expenditures, particularly wages and benefits.

The net change in fund balance in the Bond Retirement Fund of \$64,836 was a result of less debt expenditures due to the School District paying part of the school improvement bonds from the Permanent Improvement Fund. The District made the decision to pay a portion of the school improvement bonds from this fund as the full collection of the bond retirement levy has yet to take place.

The increase in fund balance of \$59,665 for the Permanent Improvement Fund was a result of fewer repair and maintenance projects being incurred as a result of the newly constructed school building.

The Classroom Facilities Fund balance decreased \$15,793 due to the completion of the school improvement project.

### **General Fund Budgeting Highlights**

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

During the course of the fiscal year 2006, the School District amended its General Fund budget, which resulted in appropriations decreasing by \$223,700, a 2.2 percent decrease.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

The Board of Education and the administration make dollars available to offer a comprehensive academic curriculum with a wide range of academic choices such as: gifted education, vocational programs, and college preparatory. The School District also provides speech and language therapy, as well as psychological services and counseling. The School District offers opportunities for students to participate in a wide range of extracurricular activities. The School District's mission is "to provide an individually focused and progressive, quality education that enables students to be contributing citizens of the local and world communities". This goal is kept in mind at the time budgets are created and when final expenditures are made. This mission statement guides the School District in all phases of operation.

For the general fund, the budget basis revenue differed from the original budgeted estimates of \$9,378,993 by \$8,303 to \$9,370,690.

During fiscal year 2006, the School District originally budgeted \$2,811,901 and \$5,361,370 for property taxes and intergovernmental revenues, respectively. The School District received \$2,863,098 in property taxes revenue, while the School District received \$5,202,096 in intergovernmental revenue.

Prior to fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

The School District's ending unobligated cash balance was \$215,397 above the original budget amount.

**Capital Assets**

At the end of the fiscal year 2006, the School District had \$15,138,421 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal year 2005 balances compared to fiscal year 2006.

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

	<b>2005</b>	<b>2006</b>
Land	\$247,182	\$247,182
Land Improvements	638,851	623,345
Buildings and Improvements	13,380,864	13,082,726
Furniture, Fixtures and Equipment	1,024,272	842,916
Vehicles	403,275	342,252
Totals	\$15,694,444	\$15,138,421

Overall capital assets decreased \$556,023 from fiscal year 2005 to fiscal year 2006. Increases in capital assets (primarily land improvements and furniture, fixtures, and equipment) were offset by depreciation expense for the year. The majority of equipment purchased during fiscal year 2006 was for computer equipment throughout the School District. For more information on capital assets, refer to Notes 10 of the basic financial statements.

**Debt Administration**

At June 30, 2006, the School District had \$11,653,896 in total outstanding debt of bonds and notes. This figure includes accretion on capital appreciation bonds. At June 30, 2006, the School District's overall legal debt margin was \$1,806,086 and the unvoted debt margin was \$144,899. For more information on debt administration, refer to Notes 15 and 16 of the basic financial statements.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Current Financial Issues and Concerns**

The School District is proud of its community support of the public schools. The building facilities project as well as the other permanent improvement projects in progress will help keep the School District facilities in excellent physical condition and allow the Board of Education and administration to provide a stable and safe environment for students to learn. The Board of Education recognizes the expectations of the community and has allocated the resources to meet these expectations. The School District had a major company move its operations out of state, and several small companies relocate to other counties in the area. The full impact of the lost revenues was felt in fiscal year 2006. Along with the decline in the industrial tax base, the School District is experiencing a declining enrollment. These two factors along with state budget cuts contributed to a relatively stagnate growth rate in revenue from fiscal year 2005 to fiscal year 2006. The Board of Education and administration will be carefully weighing their options in order to prudently provide the necessary resources for student success now and in the future. The School District will be closely watching the five-year forecast and updating it when new information becomes available.

In May 2006, voters passed an additional 0.5 percent income tax levy which will be assessed on the income of residents and of estates. The new levy is anticipated to generate additional revenue of approximately \$825,000 per year. The additional tax will be effective on January 1, 2007 and is a continuing tax. This additional income tax revenue should help stabilize the District's financial condition in the near term, however, the additional revenue will be somewhat offset in future years by reductions in property tax revenues. The reduction in property tax revenues are anticipated due to reductions in the tax rates applied to personal property as well as a general decline in the property tax base of the School District.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Michael R. Sommer, Treasurer at Miami East Local School District, 3825 North State Route 589, Casstown, Ohio 45312-9707 or email at [me\\_treas@mdeca.org](mailto:me_treas@mdeca.org).



**Miami East Local School District**

*Statement of Net Assets*

*June 30, 2006*

	Governmental Activities
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,230,911
Cash and Cash Equivalents with Fiscal Agent	37,630
Accrued Interest Receivable	3,426
Intergovernmental Receivable	18,361
Accounts Receivable	12,532
Prepaid Items	53,519
Materials and Supplies Inventory	36,388
Income Taxes Receivable	395,994
Property Taxes Receivable	3,931,943
Nondepreciable Capital Assets	247,182
Depreciable Capital Assets, Net	14,891,239
Total Assets	<u>20,859,125</u>
<b>Liabilities:</b>	
Accounts Payable	41,485
Accrued Wages and Benefits Payable	710,382
Matured Compensated Absences Payable	25,227
Accrued Interest Payable	42,165
Notes Payable	2,000,000
Intergovernmental Payable	287,426
Unearned Revenue	3,607,802
Long-Term Liabilities:	
Due Within One Year	428,818
Due in More Than One Year	10,213,070
Total Liabilities	<u>17,356,375</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	3,738,429
Restricted for:	
Debt Service	135,121
Capital Outlay	384,471
Other Purposes	124,277
Set-Asides	276,980
Unrestricted	(1,156,528)
Total Net Assets	<u><u>\$3,502,750</u></u>

See Accompanying Notes to the Basic Financial Statements

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Interest, and Contributions	Capital Grants, Interest, and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$5,329,601	\$483,540	\$40,335	\$124	(\$4,805,602)
Special	824,324	0	336,616	0	(487,708)
Vocational	126,271	0	38,606	0	(87,665)
Support Services:					
Pupils	634,539	42,928	174,607	0	(417,004)
Instructional Staff	295,588	0	47,129	90	(248,369)
Board of Education	75,988	0	0	0	(75,988)
Administration	973,025	15,025	0	262	(957,738)
Fiscal	332,920	0	8,626	1,705	(322,589)
Business	51,438	0	0	0	(51,438)
Operation and Maintenance of Plant	1,013,902	0	0	0	(1,013,902)
Pupil Transportation	767,202	3,577	32,392	8,134	(723,099)
Central	199,419	0	14,889	2,361	(182,169)
Operation of Non-Instructional Services	439,855	314,266	130,324	0	4,735
Extracurricular Activities	397,796	93,465	6,478	657	(297,196)
Interest and Fiscal Charges	607,463	0	0	0	(607,463)
<b>Total Governmental Activities</b>	<b>\$12,069,331</b>	<b>\$952,801</b>	<b>\$830,002</b>	<b>\$13,333</b>	<b>(10,273,195)</b>
<b>General Revenues:</b>					
Property Taxes Levied for:					
General Purposes					2,877,732
Debt Service					363,594
Capital Outlay					644,445
Income Taxes					830,785
Grants and Entitlements not Restricted to Specific Programs					5,045,900
Investment Earnings					58,757
Miscellaneous					54,743
<b>Total General Revenues</b>					<b>9,875,956</b>
Change in Net Assets					(397,239)
Net Assets Beginning of Year					3,899,989
Net Assets End of Year					<b>\$3,502,750</b>

See Accompanying Notes to the Basic Financial Statements

**Miami East Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Equity in Pooled Cash and Cash Equivalents	\$302,222	\$112,532	\$353,349	\$147	\$177,602	\$945,852
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0	37,630	37,630
Receivables:						
Property Taxes	2,866,103	701,327	364,513	0	0	3,931,943
Income Taxes	395,994	0	0	0	0	395,994
Accounts	7,706	0	0	0	4,826	12,532
Intergovernmental	8,273	0	0	0	10,088	18,361
Interfund	57	0	0	0	0	57
Accrued Interest	2,646	0	0	0	780	3,426
Materials and Supplies Inventory	28,038	0	0	0	8,350	36,388
Prepaid Items	53,519	0	0	0	0	53,519
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	285,059	0	0	0	0	285,059
<b>Total Assets</b>	<b>\$3,949,617</b>	<b>\$813,859</b>	<b>\$717,862</b>	<b>\$147</b>	<b>\$239,276</b>	<b>\$5,720,761</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts Payable	\$31,295	\$0	\$2,922	\$0	\$7,268	\$41,485
Accrued Wages and Benefits Payable	671,491	0	0	0	38,891	710,382
Interfund Payable	0	0	0	0	57	57
Intergovernmental Payable	258,091	0	0	0	29,335	287,426
Deferred Revenue	2,748,759	648,665	337,537	0	2,865	3,737,826
Accrued Interest Payable	0	0	0	5,042	0	5,042
Notes Payable	0	0	0	2,000,000	0	2,000,000
Matured Compensated Absences Payable	20,200	0	0	0	5,027	25,227
<b>Total Liabilities</b>	<b>3,729,836</b>	<b>648,665</b>	<b>340,459</b>	<b>2,005,042</b>	<b>83,443</b>	<b>6,807,445</b>
<b>Fund Balances:</b>						
Reserved for Encumbrances	143,528	0	84,936	0	13,137	241,601
Reserved for Property Taxes	199,895	52,662	26,976	0	0	279,533
Reserved for Textbook and Instructional Materials	276,980	0	0	0	0	276,980
Reserved for Bus Purchases	8,079	0	0	0	0	8,079
Unreserved, Undesignated (Deficit), Reported in:						
General Fund	(408,701)	0	0	0	0	(408,701)
Special Revenue Funds	0	0	0	0	142,696	142,696
Debt Service Fund	0	112,532	0	0	0	112,532
Capital Projects Funds	0	0	265,491	(2,004,895)	0	(1,739,404)
<b>Total Fund Balances</b>	<b>219,781</b>	<b>165,194</b>	<b>377,403</b>	<b>(2,004,895)</b>	<b>155,833</b>	<b>(1,086,684)</b>
<b>Total Liabilities and Fund Balance:</b>	<b>\$3,949,617</b>	<b>\$813,859</b>	<b>\$717,862</b>	<b>\$147</b>	<b>\$239,276</b>	<b>\$5,720,761</b>

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Fund Balances (\$1,086,684)

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	247,182	
Land Improvements	920,020	
Buildings and Improvements	14,231,195	
Furniture, Fixtures, and Equipment	1,881,846	
Vehicles	1,255,775	
Accumulated Depreciation	<u>(3,397,597)</u>	
		15,138,421

Long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Property Taxes Receivable	44,608	
Income Taxes Receivable	72,936	
Accounts Receivable	9,473	
Intergovernmental Receivable	<u>3,007</u>	
		130,024

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

These liabilities consist of:

Accrued Interest Payable	(37,123)	
Accretion of Capital Appreciation Bonds	(253,904)	
General Obligation Bonds	(9,399,992)	
Compensated Absences	<u>(987,992)</u>	
Total Liabilities		<u>(10,679,011)</u>

Net Assets of Governmental Activities \$3,502,750

See Accompanying Notes to the Basic Financial Statements

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

	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Property Taxes	\$2,873,347	\$642,777	\$363,272	\$0	\$0	\$3,879,396
Income Taxes	799,017	0	0	0	0	799,017
Intergovernmental	5,207,363	77,354	53,421	0	516,873	5,855,011
Interest	58,456	8,626	13,119	214	4,733	85,148
Tuition and Fees	435,163	0	0	0	40,930	476,093
Extracurricular Activities	2,428	0	0	0	163,215	165,643
Gifts and Donations	4,250	0	0	0	17,038	21,288
Customer Sales and Services	0	0	0	0	311,425	311,425
Miscellaneous	19,828	0	0	0	34,866	54,694
<b>Total Revenues</b>	<b>9,399,852</b>	<b>728,757</b>	<b>429,812</b>	<b>214</b>	<b>1,089,080</b>	<b>11,647,715</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Instruction:						
Regular	4,879,422	0	0	4,590	105,726	4,989,738
Special	631,041	0	0	0	160,445	791,486
Vocational	119,265	0	0	0	1,375	120,640
Support Services:						
Pupils	272,623	0	0	0	307,967	580,590
Instructional Staff	189,840	0	0	3,300	66,083	259,223
Board of Education	75,782	0	0	0	0	75,782
Administration	896,919	1	921	0	22,183	920,024
Fiscal	290,549	11,240	6,458	0	16,145	324,392
Business	44,112	0	0	0	0	44,112
Operation and Maintenance of Plant	809,054	0	0	0	5,026	814,080
Pupil Transportation	661,897	0	31,840	0	20,972	714,709
Central	231,462	0	9,383	0	16,425	257,270
Operation of Non-Instructional Services	804	0	0	0	402,075	402,879
Extracurricular Activities	262,575	0	2,922	0	91,240	356,737
Capital Outlay	7,422	0	141,085	7,450	4,379	160,336
Debt Service:						
Principal Retirement	0	127,462	177,538	0	0	305,000
Interest and Fiscal Charges	0	450,426	0	75,459	0	525,885
<b>Total Expenditures</b>	<b>9,372,767</b>	<b>589,129</b>	<b>370,147</b>	<b>90,799</b>	<b>1,220,041</b>	<b>11,642,883</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>27,085</b>	<b>139,628</b>	<b>59,665</b>	<b>(90,585)</b>	<b>(130,961)</b>	<b>4,832</b>
<b>Other Financing Sources (Uses):</b>						
Transfers In	0	0	0	74,792	161,673	236,465
Proceeds from Sale of Capital Assets	9,188	0	0	0	0	9,188
Transfers Out	(161,673)	(74,792)	0	0	0	(236,465)
<b>Total Other Financing Sources (Uses)</b>	<b>(152,485)</b>	<b>(74,792)</b>	<b>0</b>	<b>74,792</b>	<b>161,673</b>	<b>9,188</b>
<b>Net Change in Fund Balances</b>	<b>(125,400)</b>	<b>64,836</b>	<b>59,665</b>	<b>(15,793)</b>	<b>30,712</b>	<b>14,020</b>
Fund Balance (Deficit) at Beginning of Year	345,181	100,358	317,738	(1,989,102)	125,121	(1,100,704)
Fund Balance (Deficit) at End of Year	<u>\$219,781</u>	<u>\$165,194</u>	<u>\$377,403</u>	<u>(\$2,004,895)</u>	<u>\$155,833</u>	<u>(\$1,086,684)</u>

See Accompanying Notes to the Basic Financial Statements

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

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Net Change in Fund Balances - Total Governmental Funds		\$14,020
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlay	158,967	
Current Year Depreciation Expense	<u>(709,212)</u>	
Excess of Capital Outlay over Depreciation Expense		(550,245)
The cost of disposed capital assets is removed from the capital assets account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities.		
Loss on Disposal of Capital Assets		(5,778)
Repayment of long-term debt obligations is an expenditure in the governmental funds, but the repayment reduces long-term debt liabilities in the statement of net assets.		
		305,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds, when it is due, and thus requires the use of current financial resources. In the statement of activities the change in interest on the statement of net activities is the result of the following:		
Accretion of Capital Appreciation Bonds	(82,401)	
Net Decrease in Accrued Interest Payable	<u>823</u>	
		(81,578)
Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts:		
Property Taxes	6,375	
Income Taxes	31,768	
Accounts Receivable	(311)	
Intergovernmental Grants	(13,756)	
Interest	<u>301</u>	
		24,377
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:		
Increase in Compensated Absences		<u>(103,035)</u>
Change in Net Assets of Governmental Activities		<u><u>(\$397,239)</u></u>

See Accompanying Notes to the Basic Financial Statements

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

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Total Revenues and Other Financing Sources	\$9,378,993	\$9,370,690	\$9,370,690	\$0
Total Expenditures and Other Financing Uses	9,958,428	9,734,728	9,734,728	0
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(579,435)	(364,038)	(364,038)	0
Fund Balance at Beginning of Year	575,995	575,995	575,995	
Prior Year Encumbrances	182,464	182,464	182,464	
Fund Balance at End of Year	\$179,024	\$394,421	\$394,421	\$0

See Accompanying Notes to the Basic Financial Statements

**Miami East Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 20, 2006*

	Private Purpose Trust	Agency Fund
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$21,729	\$65,098
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable	1,000	0
Undistributed Monies	0	1,765
Due to Students	0	63,333
Total Liabilities	1,000	\$65,098
<b>NET ASSETS:</b>		
Held in Trust for Scholarships	\$20,729	

See Accompanying Notes to the Basic Financial Statements



**Miami East Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2006*

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	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest	\$1,790
Miscellaneous	11,659
Total Additions	<u>13,449</u>
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	<u>3,553</u>
Change in Net Assets	9,896
Net Assets Beginning of Year	10,833
Net Assets End of Year	<u><u>\$20,729</u></u>

See Accompanying Notes to the Basic Financial Statements

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Miami East 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 School District was established in 1956 through the consolidation of existing land areas and School Districts. The School District serves an area of approximately 118 square miles. It is located in Miami County, and includes all of the Villages of Casstown and Fletcher; Brown, Elizabeth, Lostcreek and Staunton Townships; and portions of Springcreek and Bethel Townships. The School District is staffed by 52 non-certificated employees, 79 certificated full-time teaching personnel and 8 administrative employees who provide services to 1,324 students and other community members. The School District currently operates 3 instructional buildings.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District 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 Miami East 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 three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 18 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Dayton Educational Cooperative Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
- Ohio School Plan

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Miami East 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 most 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.

**1. 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 government-wide financial statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

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

**2. Fund Financial Statements**

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**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 School District divides its funds into two categories: governmental and fiduciary.

**1. Governmental Funds**

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

The following are the School District's major governmental funds:

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

**Bond Retirement Fund** – The Bond Retirement Debt Service Fund accounts for property tax revenues and state exemption reimbursements collected for the payment of general obligation bonded debt.

**Permanent Improvement Fund** – The Permanent Improvement Capital Projects Fund accounts for property tax revenues and state exemption reimbursements collected for the purchase of capital assets.

**Classroom Facilities Fund** - The Classroom Facilities Fund accounts for financial resources to be used for the new K-8 building.

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

**2. 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. Private purpose 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 two trust funds are private purpose trusts which account for college scholarship programs for students. One of the School District's two agency funds accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor. The other agency fund accounts for activity related to the Section 125 benefit plan for employees.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**C. Measurement Focus**

**1. 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.

**2. Fund Financial Statements**

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

**D. Basis of Accounting**

The 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.

**1. Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

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

**2. 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.

**3. 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. Allocation of costs, such as depreciation and amortization are not recognized in 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".

The balance of grant activity administered and held by a fiscal agent is presented on the balance sheet as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits of the Miami County Educational Service Center.

During fiscal year 2006, the School District invested in STAROhio (State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

Following Ohio Statute, 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 \$58,456 which includes \$17,125 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. Interfund Balances**

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

**G. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased food held for resale.

**H. 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 the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund represent amounts required by statute to be set aside by the School District for the purchase of textbooks and instructional materials and revenues restricted for the purchase of buses.

**J. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of seven hundred and fifty 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

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	7 years
Buildings and Improvements	20-50 years
Furniture, Fixtures, and Equipment	3-15 years
Vehicles	5-10 years

**K. Accrued Liabilities and Long-term Obligations**

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

In general, 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 governmental funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds are recognized as a liability on the government-wide financial statements when due.

**L. Compensated Absences**

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

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

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

On governmental fund financial statements, compensated absences are reported 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 funds from which the employees will be paid.

**M. Compounded Interest on Capital Appreciation Bonds**

Capital appreciation bonds are accreted each year for the compounded interest accrued during the year. The compounded interest on the capital appreciation bonds are presented as an addition of the face amount of the bonds payable.



**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**N. Net Assets**

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

The government-wide statement of net assets reports \$920,849 of restricted net assets of which none are restricted by enabling legislation.

**O. Fund Balance Reserves**

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

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

**P. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented on the financial statements.

**Q. Estimates**

The preparation of the 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.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**R. Budgetary Process**

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The Public School Preschool Special Revenue Fund and a portion of the Miscellaneous State Grants Fund's grant activity that is administered by a fiscal agent is not budgeted by the School District. The major documents prepared are the alternative tax document, 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 budgetary control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. The financial statements are presented at less detail than the legal level of control. Prior to fiscal year-end, the School District approved amended appropriations which matched appropriations to expenditures plus encumbrances at fiscal year-end.

**3. CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2006, the School District implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."* and *GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34."*

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 fiscal year 2006.

GASB Statement No. 46 clarified how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect of the School District's financial statement for fiscal year 2006.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**4. ACCOUNTABILITY**

At June 30, 2006, the Classroom Facilities Capital Projects Fund had a deficit fund balance of \$2,004,895. This deficit in the Classroom Facilities Capital Projects Fund was the result of the requirement to report bond anticipation notes in the fund which received the note proceeds. This deficit will be alleviated when the note is paid.

**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 as follows:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

<b>Net Change in Fund Balance</b>	
GAAP Basis	(\$125,400)
Net Adjustment for Revenue Accruals	(64,642)
Net Adjustment for Expenditure Accruals	46,148
Advances	26,235
Prepaid Items	(53,519)
Adjustment for Encumbrances	(192,860)
Budget Basis	<u><u>(\$364,038)</u></u>

**6. DEPOSITS AND INVESTMENTS**

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

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

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

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 can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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 (STAROhio).
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**Investments**

As of June 30, 2006 the School District's only investment was in STAROhio, which has an average maturity of 33 days. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**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.

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

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

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

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 \$199,895 in the General Fund, \$52,662 in the Bond Retirement Fund, and \$26,976 in the Permanent Improvement Fund. The amount available as an advance at June 30, 2005, was \$189,646 in the General Fund, \$40,774 in the Bond Retirement Fund, and \$25,246 in the Permanent Improvement 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 is deferred.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

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

	<b>2005 Second – Half Collections</b>		<b>2006 First – Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$130,931,610	90.57%	\$138,740,050	91.29%
Public Utility Real	32,910	0.02	32,530	.02
Tangible Personal Property	13,600,400	9.41	13,205,255	8.69
<b>Total</b>	<b>\$144,564,920</b>	<b>100.00%</b>	<b>\$151,977,835</b>	<b>100.00%</b>
Tax Rate per \$1,000 of Assessed Valuation	\$48.38		\$49.38	

An increase of 1.00 mill is due to a new outside 10 mill limitation bonded debt levy. This is for school improvement bonds issued for \$9,999,992 on June 1, 2002.

**8. INCOME TAX**

The School District levies a voted tax of 0.5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**9. RECEIVABLES**

Receivables at June 30, 2006, consisted of property and income taxes, accounts (tuition, and student fees), intergovernmental grants, interfund, and accrued interest. All receivables are considered collectible in full and will be received within one year.

A summary of intergovernmental receivables follows:

	<b>Amounts</b>
Governmental Activities:	
Drug Free Schools	\$521
Special Education Transportation Reimbursement	2,467
Teacher Training Reimbursement	2,800
Miscellaneous Schools Student Tuition	3,006
Federal Lunch Reimbursements	9,567
<b>Total Intergovernmental Receivables</b>	<b>\$18,361</b>

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**10. CAPITAL ASSETS**

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

<b>Governmental Activities</b>	<b>Balance 6/30/05</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 6/30/06</b>
Capital Assets, not Being Depreciated:				
Land	\$247,182	\$0	\$0	\$247,182
Total Capital Assets, not Being Depreciated	247,182	0	0	247,182
Capital Assets, Being Depreciated:				
Land Improvements	896,928	23,092	0	920,020
Buildings and Improvements	14,231,195	0	0	14,231,195
Furniture, Fixtures, and Equipment	1,852,119	73,745	(44,018)	1,881,846
Vehicles	1,204,320	62,130	(10,675)	1,255,775
Total Capital Assets, Being Depreciated	18,184,562	158,967	(54,693)	18,288,836
Less Accumulated Depreciation:				
Land Improvements	(258,077)	(38,598)	0	(296,675)
Buildings and Improvements	(850,331)	(298,138)	0	(1,148,469)
Furniture, Fixtures, and Equipment	(827,847)	(252,584)	41,501	(1,038,930)
Vehicles	(801,045)	(119,892)	7,414	(913,523)
Total Accumulated Depreciation	(2,737,300)	(709,212)	48,915	(3,397,597)
Capital Assets, Being Depreciated, Net	15,447,262	(550,245)	(5,778)	14,891,239
Governmental Activities Capital Assets, Net	<u>\$15,694,444</u>	<u>(\$550,245)</u>	<u>(\$5,778)</u>	<u>\$15,138,421</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$273,510
Special	28,666
Vocational	4,307
Support Services:	
Pupils	51,005
Instructional Staff	41,955
Board of Education	206
Administration	36,400
Fiscal	3,043
Business	7,326
Operation and Maintenance of Plant	60,648
Pupil Transportation	118,041
Operation of Non-Instructional Services	39,481
Extracurricular Activities	44,624
Total Depreciation Expense	<u>\$709,212</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**11. 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 joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP 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 OSP (See Note 18). The School District contracts for property, fleet, inland marine coverage, crime insurance, education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

Coverage includes:

Building and Contents-replacement cost (\$5,000 deductible)	\$26,205,900
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	250,000
Inland Marine Coverage (\$1,000 deductible)	1,534,374
Crime Insurance (\$1,000 deductible)	25,000
Education General Liability:	
Each Occurrence	1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability (\$2,500 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Employment Practices (\$2,500 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Excess Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant decrease in insurance coverage from the last fiscal year.



**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**B. Workers' Compensation**

For fiscal year 2006, the School District participated in the Southwestern Ohio Educational Purchasing Council 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 CompManagement Health Systems, Inc. provides administrative, cost control, and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2006, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 18). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**12. 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 [www.ohsers.org](http://www.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, 2005 and 2004 were \$127,641, \$142,478, and \$122,882, respectively; 41.02 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**B. State Teachers Retirement System of Ohio**

The School District contributes to 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 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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 the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$597,845, \$569,372, and \$555,487, respectively; 83.1 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,908 made by the School District and \$463 made by the plan members.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (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, four members of the Board of Education have elected Social Security. The remaining Board member contributes to SERS. The Board's liability is 6.2 percent of wages paid.

**13. POSTEMPLOYMENT BENEFITS**

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

All 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 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$45,988 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 fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, 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 \$65,721.

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 annual health care expenses. 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 currently eligible to receive health care benefits.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

**14. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation, personal leave, sick leave, and compensatory time components are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation or compensatory time. Personal leave is accrued at three days per fiscal year for all employees under contract for a full school year. Unused personal leave accumulates to a maximum of five days. Unused personal leave accumulation over five days may be converted to sick leave, cashed out, or donated to sick leave bank. Employees may be granted compensatory time for hours worked outside their regular business day. Unused compensatory time accumulates to a maximum of 40 hours.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 300 days for all certified personnel and 274 days for all classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation (certified staff – not to exceed 72.50 days; classified staff --not to exceed 64.75 days).

**B. Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through the Horace Mann Life Insurance Company. Medical/surgical benefits are provided by Anthem through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 18). The School District also provides dental insurance through CoreSource, and vision insurance through Vision Insurance Plan to all eligible employees.

**C. Deferred Compensation Plan**

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

**15. FUND OBLIGATIONS**

The School District's short-term debt activity, including amounts outstanding and interest rates follow:

	<u>Balance at 6/30/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 6/30/06</u>
School Improvement Bond Anticipation Note 3.75% - 2005	\$2,000,000	\$0	\$2,000,000	\$0
School Improvement Bond Anticipation Note 4.125% - 2006	0	2,000,000	0	2,000,000
<b>Total</b>	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

On June 9, 2005, the School District issued a one-year \$2,000,000 School Improvement Bond Anticipation Note for the purpose of constructing the K-8 school building including equipment. The fiscal year 2005 note was issued at a 3.75 percent interest rate and matured on June 8, 2006 and was reissued in the amount of \$2,000,000 at an interest rate of 4.125 percent and matures on June 7, 2007. This note is backed by the full faith and credit of the School District and will be repaid with property tax revenue from the General Fund. The note is reported in the Classroom Facilities Capital Projects Fund, the fund which had originally received the proceeds.

**16. LONG-TERM OBLIGATIONS**

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

	<u>Amount Outstanding 6/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/06</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
School Improvement Serial Bonds 2002 2.85-5.125%	\$5,110,000	\$0	(\$305,000)	\$4,805,000	\$315,000
School Improvement Term Bonds 2002 2.85-5.125%	4,390,000	0	0	4,390,000	0
School Improvement Original Issue of Capital Appreciation Bonds 2002 24.56%	204,992	0	0	204,992	0
Accretion on Capital Appreciation Bonds	171,503	82,401	0	253,904	0
Total Long-Term Debt	9,876,495	82,401	(305,000)	9,653,896	315,000
Compensated Absences	884,957	150,187	(47,152)	987,992	113,818
Total Governmental Activities Long-Term Liabilities	<u>\$10,761,452</u>	<u>\$232,588</u>	<u>(\$352,152)</u>	<u>\$10,641,888</u>	<u>\$428,818</u>

**School Improvement Bonds** - On June 1, 2002, Miami East Local School District issued \$9,999,992 in school improvement general obligation bonds. The bonds were issued for a 28-year period with final maturity during fiscal year 2030. The bonds will be retired from the Bond Retirement Fund and the Permanent Improvement Fund with property tax revenues from a voted levy and transfers allocated from the General Fund. The bond is backed by the full faith and credit of the School District. In the event that a property owner fails to make payments, the School District will be required to pay the debt.

The term bonds maturing on December 1, 2025, will be subject to mandatory sinking fund redemption on December 1 as follows:

<u>Year</u>	<u>Amount to be Redeemed</u>
2023	\$540,000
2024	565,000

Unless otherwise called for redemption, the remaining \$595,000 principal amount of the bonds due December 1, 2025 is to be paid at stated maturity.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

The School Improvement Bonds maturing on December 1, 2013, and thereafter are subject to optional redemption at the direction of the School District, in whole at any time or in part on any interest payment date, in any order as determined by the School District and by lot within a maturity, on or after June 1, 2012, which is 100% of the face value of the bonds.

If fewer than all of the outstanding bonds of a single maturity are called for redemption, the selection of the bonds to be redeemed, or portions thereof in amount of \$5,000 or any integral multiple thereof, will be made by lot. In the case of a partial redemption of bonds when bonds of denominations greater than \$5,000 are outstanding, each \$5,000 unit of face value of principal thereof will be treated as though it were a separate bond of the denomination of \$5,000. If one or more, but not all, of such \$5,000 units of face value represented by a bond are to be called for redemption, then upon notice of redemption of a \$5,000 unit or units, the registered holder of that bond will surrender the bond (a) for payment of the redemption price for the \$5,000 unit or units of face value called for redemption (including without limitation, the interest accrued to the date fixed for redemption and any premium), and (b) for issuance, without charge to the registered holder thereof, of a new bond or bonds of the same series, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturity on the same date as, the bond surrendered.

The capital appreciation bonds issued at \$204,992 are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2010 thru 2014, with a maturity amount of \$350,000 each year. For fiscal year 2006, the capital appreciation bonds were accreted \$82,401.

Compensated absences will be paid from the General Fund, the Food Service, and Title I funds.

The School District's overall legal debt margin was \$1,806,086 and the unvoted debt margin was \$144,899 at June 30, 2006.

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

<b>School Improvement General Obligation Bonds</b>							
<b>Fiscal Year Ending June 30,</b>	<b>Term Bonds Principal</b>	<b>Term Bonds Interest</b>	<b>Serial Bonds Principal</b>	<b>Serial Bonds Interest</b>	<b>Capital Appreciation Principal</b>	<b>Capital Appreciation Interest</b>	<b>Total</b>
2007	\$0	\$0	\$315,000	\$445,470	\$0	\$0	\$760,470
2008	0	0	325,000	434,603	0	0	759,603
2009	0	0	340,000	422,578	0	0	762,578
2010	0	0	0	409,828	61,793	288,207	759,828
2011	0	0	0	409,827	49,014	300,986	758,827
2012-2016	0	0	715,000	2,033,037	94,185	955,815	3,798,037
2017-2021	0	0	2,110,000	1,687,582	0	0	3,797,582
2022-2026	1,700,000	586,337	1,000,000	521,226	0	0	3,807,563
2027-2030	2,690,000	353,625	0	0	0	0	3,043,625
Totals	<u>\$4,390,000</u>	<u>\$939,962</u>	<u>\$4,805,000</u>	<u>\$6,364,151</u>	<u>\$204,992</u>	<u>\$1,545,008</u>	<u>\$1,8249,113</u>

**17. INTERFUND ASSETS/LIABILITIES AND TRANSFERS**

The General Fund had an interfund receivable at June 30, 2006, of \$57, while all other nonmajor funds had interfund payables of \$57. The balance is due to reimbursable expenses resulting from the time lag between the dates that reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

The General Fund had transfers out to the nonmajor funds of \$161,673. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds. The transfer between the Bond Retirement Debt Service Fund and Classroom Facilities Capital Projects fund was done to move debt activity to the fund that originally received the interest proceeds.

**18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS**

**A. Jointly Governed Organizations**

**Metropolitan Dayton Educational Cooperative Association** - The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, and Darke Counties and the Cities of Dayton, Troy, and Greenville. 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 MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. The School District paid MDECA \$47,587 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**Southwestern Ohio Educational Purchasing Council** -The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations during the one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the School District paid \$2,780 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state of local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2006, the School District paid \$7,479 to SOITA for services provided during the fiscal year. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**B. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan** – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

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

**19. SET-ASIDE CALCULATIONS**

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

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



**MIAMI EAST LOCAL SCHOOL DISTRICT  
MIAMI COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006 (Continued)**

	<b>Textbooks and Instructional Materials</b>	<b>Capital Acquisition</b>
Set-aside Reserve Balance as of June 30, 2005	\$246,423	\$0
Current Fiscal Year Set-aside Requirement	191,094	191,094
Current Fiscal Year Offsets	0	(361,542)
Qualifying Disbursements	(160,537)	0
Totals	<u>\$276,980</u>	<u>(\$170,448)</u>
Set-aside Balances Carried Forward to Future Fiscal Years	<u>\$276,980</u>	<u>\$0</u>
Set-aside Reserve Balance at June 30, 2006	<u>\$276,980</u>	<u>\$0</u>

Although the School District had offsets for capital acquisitions during the fiscal year that reduced the set-aside amount to below zero, this extra amount may not be used to reduce the set-aside requirements of future fiscal years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**20. CONTINGENCIES**

**A. Federal and State Grants**

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

**B. Litigations**

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

**21. SIGNIFICANT CONTRACTUAL COMMITMENTS**

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

<b>Company</b>	<b>Contract Amount</b>	<b>Amount Expended</b>	<b>Balance at 6/30/06</b>
Lostcreek Lawn and Fence Company	\$12,000	\$4,800	\$7,200
Don Hubbard Jr. Roofing, Inc.	24,312	0	24,312
Cardinal Bus Sales and Service	65,600	0	65,600
Patriot Paving	46,165	0	46,165
<b>Total</b>	<u>\$148,077</u>	<u>\$4,800</u>	<u>\$143,277</u>

**22. SUBSEQUENT EVENT**

An additional 0.5 percent income tax was passed by the voters on May 2, 2006 for general operations on the income of residents and of estates. The tax will be effective on January 1, 2007, and is a continuing tax.



**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

Board of Education  
Miami East Local School District  
2825 North State Route 589  
Casstown, Ohio 45312

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Miami East Local School District (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 December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 1, 2006.

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

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
December 1, 2006

**MIAMI EAST LOCAL SCHOOL DISTRICT**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Explanation of Correction
2005-001	Finding for Recovery in the amount of \$11,369.36 related to the District's transfer of the Boak-Gilmer Music Scholarship Fund to the Miami East Education Foundation.	YES	The District obtained the funds from the Miami East Education Foundation and deposited the funds back into the District's Fund 008 on February 17, 2006.
2005-002	Reporting the assets and activity of the Miami East Education Foundation as a special revenue fund in the District's financial records.	YES	The District accounted for and reported the assets and activity of the Education Foundation as a special revenue fund during 2006.



**Mary Taylor, CPA**  
Auditor of State

**MIAMI EAST LOCAL SCHOOL DISTRICT**

**MIAMI 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  
MARCH 15, 2007**