



Mary Taylor, CPA  
Auditor of State



**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Preble Shawnee Local School District  
Preble County  
124 Bloomfield Street  
Camden, Ohio 45311

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble Shawnee Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2C, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County, Ohio, as of June 30, 2006, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2006, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis in a format comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Mary Taylor, CPA**  
Auditor of State

March 1, 2007

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

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The discussion and analysis of Preble Shawnee 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, within the limitations of the School District's modified cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2006 are as follows:

In total, net assets increased \$293,327, which represents a 3.7 percent increase from fiscal year 2005.

General receipts accounted for \$11,509,988 or 81.2 percent of all receipts. Program specific receipts in the form of charges for services, operating grants, contributions, and interest, and capital grants and contributions accounted for \$2,671,463 or 18.8 percent of total receipts of \$14,181,451.

The School District had \$13,888,124 in disbursements; only \$2,671,463 of these disbursements were offset by program specific charges for services, grants or contributions.

Among major funds, the General Fund had \$12,090,776 in receipts and \$11,604,829 in disbursements. The General Fund's balance increased \$296,961.

### **Using this Annual Financial Report**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

#### *Report Components*

The Statement of Net Assets and the Statement of Activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanations and details regarding the information reported in the statements.

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

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*Basis of Accounting*

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the School District as a Whole**

*Statement of Net Assets and Statement of Activities – Modified Cash Basis*

The Statement of Net Assets and the Statement of Activities reflect how the School District did financially during fiscal year 2006, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The Statement of Activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental program draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other nonfinancial factors as well such as the School District's property tax base, the condition of the School District's capital assets, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local receipt sources such as property and income taxes.



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

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## **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 reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Fund, and the Replacement Fund.

### *Governmental Funds*

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 on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

## **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 fiscal year 2006 compared to fiscal year 2005:

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

Table 1  
Net Assets

	2006	Restated 2005	Change
<b>Assets:</b>			
Current and Other Assets	\$2,466,336	\$2,221,321	\$245,015
Capital Assets	9,161,793	9,458,481	(296,688)
<i>Total Assets</i>	<u>11,628,129</u>	<u>11,679,802</u>	<u>(51,673)</u>
<b>Liabilities:</b>			
Long-Term Liabilities	3,425,000	3,755,000	(330,000)
Other Liabilities	50,000	65,000	(15,000)
<i>Total Liabilities</i>	<u>3,475,000</u>	<u>3,820,000</u>	<u>(345,000)</u>
<b>Net Assets:</b>			
Invested in Capital Assets	5,686,793	5,638,481	48,312
Restricted	1,150,702	1,120,643	30,059
Unrestricted (Deficit)	1,315,634	1,100,678	214,956
<i>Total Net Assets</i>	<u>\$8,153,129</u>	<u>\$7,859,802</u>	<u>\$293,327</u>

Total assets of governmental activities decreased by \$51,673 and capital assets decreased by \$296,688. 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, increased by \$214,956. The School District's educational program was significantly curtailed due to losses in enrollment. The District lost six certified personnel due to retirement, resignation, and reduction in force. None of these positions were filled.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006. Since this is the first year Preble Shawnee Local School District has prepared financial statements following GASB Statement No. 34 under the modified cash basis, receipt and disbursement comparisons to fiscal year 2005 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

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

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Table 2  
Changes in Net Assets

	2006
<b>Receipts:</b>	
Program Receipts:	
Charges for Services	\$981,608
Operating Grants, Contributions and Interest	1,664,762
Capital Grants and Contributions	25,093
Total Program Receipts	2,671,463
General Receipts:	
Property Taxes	3,028,203
Income Tax	1,558,958
Grants and Entitlements	6,732,059
Investment Earnings	122,271
Gifts and Donations	54,858
Miscellaneous	13,639
Total General Receipts	11,509,988
Total Receipts	14,181,451
<b>Program Disbursements:</b>	
Instruction:	
Regular	6,028,894
Special	1,457,698
Vocational	477,200
Support Services:	
Pupils and Instructional Staff	985,693
Board of Education, Administration, Fiscal and Business	1,552,084
Operation and Maintenance of Plant	1,533,105
Pupil Transportation	661,228
Central	181,264
Operation of Non-Instructional Services	531,372
Extracurricular Activities	213,737
Capital Outlay	85,876
Interest and Fiscal Charges	179,973
Total Disbursements	13,888,124
Change in Net Assets	293,327
Net Assets at Beginning of Year	7,859,802
Net Assets at End of Year	\$8,153,129

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

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**Governmental Activities**

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District's operations. Property taxes and income taxes made up 32 percent of receipts for governmental activities for the Preble Shawnee Local School District for fiscal year 2006.

Instruction comprises 57 percent of School District disbursements. Support services disbursements make up 35 percent of the disbursements.

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

Since this is the first year the School District has prepared financial statements following GASB Statement No. 34 under the modified cash basis, total cost of services and net cost of services comparisons to fiscal year 2005 are not available. In future years, when prior information is available, a comparative analysis of government-wide data will be presented.

Table 3  
Governmental Activities

	<u>Total Cost of Service 2006</u>	<u>Net Cost of Service 2006</u>
Instruction:		
Regular	6,028,894	(\$5,328,000)
Special	1,457,698	(455,602)
Vocational	477,200	(350,261)
Support Services:		
Pupils and Instructional Staff	985,693	(927,115)
Board of Education, Administration		
Fiscal and Business	1,552,084	(1,466,741)
Operation and Maintenance of Plant	1,533,105	(1,524,895)
Pupil Transportation	661,228	(654,183)
Central	181,264	(160,336)
Operation of Non-Instructional Services	531,372	(76,288)
Extracurricular Activities	213,737	(7,391)
Capital Outlay	85,876	(85,876)
Interest and Fiscal Charges	179,973	(179,973)
Total Disbursements	<u>\$13,888,124</u>	<u>(\$11,216,661)</u>

The dependence upon tax revenues is apparent. Over 69 percent of instruction activities are supported through taxes and other general receipts; for all activities general receipt support is 81 percent. The community, as a whole, is the primary support for the Preble Shawnee Local School District.

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

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

Information about the School District's major funds starts on page 14. The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$14,181,451 and disbursements of \$13,921,436. The net change in fund balance for the fiscal year in the General Fund, the Bond Retirement Fund, and the Replacement Fund was \$296,961, (\$25,349) and \$15,000 respectively. The General Fund experienced an increase from fiscal year 2005 due to personnel reductions. The Bond Retirement Fund decreased due to debt payments. The Replacement Fund increased due to the decrease in notes payable.

### **General Fund Budgeting Highlights**

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

During the course of fiscal year 2006, final appropriations decreased \$246,605 to \$11,804,508 from original appropriations of \$12,051,113 mainly because the School District has historically held conservative ways of spending dollars so that needs can be met with the interest of the taxpayer in mind. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual disbursements plus encumbrances.

For the General Fund, the final budgeted receipt estimate was \$12,080,071, a \$206,499 increase from the original budgeted receipt estimate of \$12,286,570. This difference was mainly in intergovernmental. The decreases in intergovernmental was due to the decrease in the number of students, which led to a decrease in State Foundation money. Actual receipts matched final budget receipts for all accounts other than interest receipts.

The School District's ending unobligated General Fund cash balance was \$9,313.

### **Capital Assets**

At the end of fiscal year 2006, the School District had \$9,161,793 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles.

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

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

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

	2006	2005	Change
Land	\$247,991	\$247,991	\$0
Land Improvements	86,880	93,356	(6,476)
Buildings and Improvements	8,348,115	8,665,188	(317,073)
Furniture, Fixtures, and Equipment	268,422	275,299	(6,877)
Vehicles	210,385	176,647	33,738
Totals	<u>\$9,161,793</u>	<u>\$9,458,481</u>	<u>(\$296,688)</u>

Overall capital assets decreased \$296,688 from fiscal year 2005 to fiscal year 2006. The decrease was due to the depreciation disbursement for the fiscal year exceeding additions.

For more information on capital assets, see Note 14 of the Basic Financial Statements.

### Debt Administration

At June 30, 2006, the School District had two school improvement debt issues outstanding. One issue was originally dated December 1, 1982 and will be retired on December 1, 2006. This project built a new high school for the School District. The second issue was originally dated March 3, 1999. This project provided for additions to both the School District's elementary schools. The energy conservation note was issued on October 26, 2005 and was rolled over on October 24, 2006. On October 24, 2006 the School District paid \$50,000 of the note and refinanced the remaining \$225,000. Therefore, the \$275,000 liability outstanding at June 30, 2006 will be split with \$225,000 presented as a long-term liability and \$50,000 presented as a fund liability in the fund financial statements. This project provided energy improvements to the high school.

Table 5  
Outstanding Debt at June 30,

	2006	2005	Change
School Improvement Bond - 1982	\$175,000	\$350,000	(\$175,000)
School Improvement Bond - 1999	3,025,000	3,130,000	(105,000)
Energy Conservation Note - 2005			
Short-Term	50,000	65,000	(15,000)
Long-Term	225,000	275,000	(50,000)
Totals	<u>\$3,475,000</u>	<u>\$3,820,000</u>	<u>(\$345,000)</u>

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

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At June 30, 2006, the School District's overall legal debt limitation was \$10,496,941 with an unvoted debt margin of \$145,960, and an Energy Conservation debt margin of \$1,038,644 at June 30, 2006.

For more information on the School District's debt, see Note 15 of the Basic Financial Statements.

### **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 Mollie M. Hansel, Treasurer at Preble Shawnee Local School District, 124 Bloomfield Street, Camden, Ohio 45311 or email at **[hanselm@preble-shawnee.k12.oh.us](mailto:hanselm@preble-shawnee.k12.oh.us)**

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**Preble Shawnee Local School District**  
Statement of Net Assets - Modified Cash Basis  
June 30, 2006

	Governmental Activities
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,458,648
Cash and Cash Equivalents with Fiscal Agents	7,688
Non-Depreciable Capital Assets	247,991
Depreciable Capital Assets, Net	8,913,802
 Total Assets	 11,628,129
<b>Liabilities:</b>	
Notes Payable	50,000
Long-Term Liabilities:	
Due Within One Year	290,000
Due in More Than One Year	3,135,000
 <i>Total Liabilities</i>	 3,475,000
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	5,686,793
Restricted for:	
Debt Service	560,500
Capital Outlay	49,299
Classroom Facilities Maintenance	172,310
Other Purposes	196,440
Set-Asides	172,153
Unrestricted	1,315,634
 <i>Total Net Assets</i>	 \$8,153,129

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Activities - Modified Cash Basis  
For the Fiscal Year Ended June 30, 2006

	Cash Disbursements	Program Receipts			Net (Expense) Receipt and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$6,028,894	\$396,729	\$286,117	\$18,048	(\$5,328,000)
Special	1,457,698	27,186	974,910	0	(455,602)
Vocational	477,200	1,837	125,102	0	(350,261)
Support Services:					
Pupils	549,853	0	11,299	0	(538,554)
Instructional Staff	435,840	0	47,279	0	(388,561)
Board of Education	49,868	0	0	0	(49,868)
Administration	1,088,456	34,965	0	0	(1,053,491)
Fiscal	404,310	0	50,378	0	(353,932)
Business	9,450	0	0	0	(9,450)
Operation and Maintenance of Plant	1,533,105	0	8,210	0	(1,524,895)
Pupil Transportation	661,228	0	0	7,045	(654,183)
Central	181,264	0	20,928	0	(160,336)
Operation of Non-Instructional Services	531,372	314,545	140,539	0	(76,288)
Extracurricular Activities	213,737	206,346	0	0	(7,391)
Capital Outlay	85,876	0	0	0	(85,876)
Interest and Fiscal Charges	179,973	0	0	0	(179,973)
<i>Total Governmental Activities</i>	<u>\$13,888,124</u>	<u>\$981,608</u>	<u>\$1,664,762</u>	<u>\$25,093</u>	<u>(11,216,661)</u>

**General Receipts:**

Property Taxes Levied For:

General Purposes	2,586,346
Capital outlay	55,973
Debt Service	385,884
Income Tax	1,558,958

Grants and Entitlements not Restricted to

Specific Programs	6,732,059
Investment Earnings	122,271
Gifts and Donations	54,858
Miscellaneous	13,639

*Total General Receipts* 11,509,988

*Change in Net Assets* 293,327

*Net Assets at Beginning of Year - Restated Note 3* 7,859,802

*Net Assets at End of Year* \$8,153,129

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
 Balance Sheet - Modified Cash Basis  
 Governmental Funds  
 June 30, 2006

	General	Bond Retirement	Replacement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,292,874	\$552,812	\$0	\$440,809	\$2,286,495
Cash and Cash Equivalents with Fiscal Agents	0	7,688	0	0	7,688
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	172,153	0	0	0	172,153
<i>Total Assets</i>	<u>\$1,465,027</u>	<u>\$560,500</u>	<u>\$0</u>	<u>\$440,809</u>	<u>\$2,466,336</u>
<b>Liabilities:</b>					
Notes Payable	\$0	\$0	\$50,000	\$0	\$50,000
<b>Fund Balances:</b>					
Reserved for Encumbrances	199,679	0	0	50,642	250,321
Reserved for Textbooks and Instructional Materials	107,323	0	0	0	107,323
Reserved for Budget Stabilization	64,830	0	0	0	64,830
Unreserved, Undesignated, Reported in:					
General Fund	1,093,195	0	0	0	1,093,195
Special Revenue Funds	0	0	0	340,868	340,868
Debt Service Fund	0	560,500	0	0	560,500
Capital Projects Funds (Deficit)	0	0	(50,000)	49,299	(701)
<i>Total Fund Balances (Deficit)</i>	<u>1,465,027</u>	<u>560,500</u>	<u>(50,000)</u>	<u>440,809</u>	<u>2,416,336</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,465,027</u>	<u>\$560,500</u>	<u>\$0</u>	<u>\$440,809</u>	<u>\$2,466,336</u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities - Modified Cash Basis  
 June 30, 2006

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<b>Total Governmental Fund Balances</b>	\$2,416,336
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*Amounts reported for governmental activities in the  
 Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	247,991	
Land Improvements	417,414	
Buildings and Improvements	14,799,841	
Furniture, Fixtures, and Equipment	1,258,029	
Vehicles	893,752	
Accumulated Depreciation	<u>(8,455,234)</u>	
Total Capital Assets		9,161,793

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

Energy Conservation Note	(225,000)	
General Obligation Bonds Payable	<u>(3,200,000)</u>	
Total Liabilities		<u>(3,425,000)</u>

<i>Net assets of Governmental Activities</i>	<u><u>\$8,153,129</u></u>
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See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Cash Receipts, Disbursements and Changes in  
Fund Balances - Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Replacement	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>					
Property Taxes	\$2,586,346	\$385,884	\$0	\$55,973	\$3,028,203
Income Tax	1,558,958	0	0	0	1,558,958
Tuition and Fees	350,825	0	0	61,228	412,053
Interest	122,271	0	0	757	123,028
Intergovernmental	7,298,922	50,378	0	1,071,857	8,421,157
Extracurricular Activities	132,385	0	0	108,926	241,311
Gifts and Donations	25,578	0	0	29,280	54,858
Rent	13,699	0	0	0	13,699
Charges for Services	0	0	0	314,545	314,545
Miscellaneous	1,792	0	0	11,847	13,639
<i>Total Receipts</i>	<u>12,090,776</u>	<u>436,262</u>	<u>0</u>	<u>1,654,413</u>	<u>14,181,451</u>
<b>Disbursements:</b>					
Current:					
Instruction:					
Regular	5,365,520	0	0	430,080	5,795,600
Special	885,524	0	0	553,103	1,438,627
Vocational	450,380	0	0	8,292	458,672
Support Services:					
Pupils	490,518	0	0	58,572	549,090
Instructional Staff	367,416	0	0	48,092	415,508
Board of Education	49,868	0	0	0	49,868
Administration	1,041,898	0	0	42,268	1,084,166
Fiscal	391,322	11,630	0	1,358	404,310
Business	9,303	0	0	0	9,303
Operation and Maintenance of Plant	1,516,488	0	0	6,156	1,522,644
Pupil Transportation	682,918	0	0	265	683,183
Central	140,745	0	0	41,836	182,581
Operation of Non-Instructional Services	17,768	0	0	509,240	527,008
Extracurricular Activities	135,626	0	0	69,401	205,027
Capital Outlay	59,535	0	0	26,341	85,876
Debt Service:					
Principal Retirement	0	280,000	0	0	280,000
Interest and Fiscal Charges	0	179,069	904	0	179,973
Current Refunding	0	50,000	0	0	50,000
<i>Total Disbursements</i>	<u>11,604,829</u>	<u>520,699</u>	<u>904</u>	<u>1,795,004</u>	<u>13,921,436</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>485,947</u>	<u>(84,437)</u>	<u>(904)</u>	<u>(140,591)</u>	<u>260,015</u>
<b>Other Financing Sources (Uses):</b>					
Notes Issued	0	225,000	0	0	225,000
Current Refunding	0	(225,000)	0	0	(225,000)
Advances In	27,439	0	0	3,601	31,040
Advances Out	(3,601)	0	0	(27,439)	(31,040)
Transfers In	0	74,992	15,904	137,832	228,728
Transfers Out	(212,824)	(15,904)	0	0	(228,728)
<i>Total Other Financing Sources (Uses)</i>	<u>(188,986)</u>	<u>59,088</u>	<u>15,904</u>	<u>113,994</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	296,961	(25,349)	15,000	(26,597)	260,015
<i>Fund Balances (Deficit) at Beginning of Year - Restated Note 3</i>	1,168,066	585,849	(65,000)	467,406	2,156,321
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$1,465,027</u>	<u>\$560,500</u>	<u>(\$50,000)</u>	<u>\$440,809</u>	<u>\$2,416,336</u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
 In Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis  
 For the Fiscal Year Ended June 30, 2006

**Net Change in Fund Balances - Total Governmental Funds** \$260,015

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

Governmental funds report capital outlays as disbursements. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation disbursement. In the current period, these amounts are:

Capital Outlay	120,406	
Depreciation Disbursement	(417,094)	
Excess of Capital Outlay Over Depreciation Disbursement		(296,688)

Repayment of long-term obligations is a disbursement in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General Obligation Bonds Payable	280,000	
Energy Conservation Note Payable	275,000	
		555,000

Note Proceeds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.

(225,000)

*Change in Net Assets of Governmental Activities*

\$293,327

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Receipts, Disbursements and  
Changes in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	
<b>Receipts:</b>				
Property Taxes	\$2,590,800	\$2,586,346	\$2,586,346	\$0
Income Tax	1,480,000	1,558,958	1,558,958	0
Tuition and Fees	431,761	350,825	350,825	0
Interest	63,523	112,958	122,271	9,313
Intergovernmental	7,700,085	7,298,922	7,298,922	0
Extracurricular Activities	9,872	132,385	132,385	0
Gifts and Donations	1,907	25,578	25,578	0
Rent	8,522	13,699	13,699	0
Miscellaneous	100	400	400	0
<i>Total Receipts</i>	<u>12,286,570</u>	<u>12,080,071</u>	<u>12,089,384</u>	<u>9,313</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	5,398,608	5,368,831	5,368,831	0
Special	1,226,741	885,524	885,524	0
Vocational	493,889	532,433	532,433	0
Support Services:				
Pupils	506,056	492,581	492,581	0
Instructional Staff	368,179	368,941	368,941	0
Board of Education	54,292	50,007	50,007	0
Administration	956,391	1,043,069	1,043,069	0
Fiscal	452,374	404,528	404,528	0
Business	22,793	14,435	14,435	0
Operation and Maintenance of Plant	1,645,032	1,596,627	1,596,627	0
Pupil Transportation	692,146	688,440	688,440	0
Central	169,848	141,363	141,363	0
Operation of Non-Instructional Services	7,756	17,768	17,768	0
Extracurricular Activities	22,699	135,626	135,626	0
Capital Outlay	34,309	64,335	64,335	0
<i>Total Disbursements</i>	<u>12,051,113</u>	<u>11,804,508</u>	<u>11,804,508</u>	<u>0</u>
<i>Excess of Receipts Over Disbursements</i>	<u>235,457</u>	<u>275,563</u>	<u>284,876</u>	<u>9,313</u>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Disbursements	800	1,392	1,392	0
Advances In	27,439	27,439	27,439	0
Advances Out	0	(3,601)	(3,601)	0
Transfers Out	(583,672)	(212,824)	(212,824)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(555,433)</u>	<u>(187,594)</u>	<u>(187,594)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(319,976)	87,969	97,282	9,313
<i>Fund Balance at Beginning of Year</i>	963,126	963,126	963,126	0
<i>Prior Year Encumbrances Appropriated</i>	204,940	204,940	204,940	0
<i>Fund Balance at End of Year</i>	<u>\$848,090</u>	<u>\$1,256,035</u>	<u>\$1,265,348</u>	<u>\$9,313</u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis  
Agency Funds  
June 30, 2006

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	<u>Agency</u>
<b>Asset:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$52,346</u>
<b>Liabilities:</b>	
Undistributed Monies	9,621
Due to Students	<u>42,725</u>
<i>Total Liabilities</i>	<u>\$52,346</u>

See Accompanying Notes to the Basic Financial Statements



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

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

Preble Shawnee 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 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 89 square miles. It is located in Butler, Montgomery, and Preble Counties, including all of Gasper, German, Gratis, Israel, Lanier, Somers, and Wayne Townships.

*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 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 Preble Shawnee 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 does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), the Ohio School Plan, and the Preble County Consortium (the "Consortium") respectively. These organizations are presented in Note 16, 17 and 18 to the basic financial statements.

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

As discussed further in Section C of Note 2, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the School District's accounting policies are described below.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements:*

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The Statement of Net Assets presents the cash balance, capital assets, and debt of the governmental activities of the School District at fiscal year-end. The Statement of Activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

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

*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. Nonmajor funds are aggregated and presented in a single column. Fiduciary Funds are reported by type.

**B. Fund Accounting**

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

*Governmental Funds:*

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. 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 is used to account for various revenues collected for the payment of general obligated bonded debt.

*Replacement Fund* – The Replacement Capital Projects Fund accounts for the Energy Conservation Program (H.B. 264) which is an innovative program that gives the School District an opportunity to make energy efficiency improvements to their buildings and use the cost savings to pay for those improvements.

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

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

*Fiduciary Fund:*

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

**C. Basis of Accounting**

The School District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

All funds, except the Agency Fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

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

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

The appropriations resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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, including all supplemental appropriations. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

**E. Cash and Investments**

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents” on the financial statements. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as “Cash and Cash Equivalents with Fiscal Agents” and represents deposits.

During fiscal year 2006, the School District’s investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). 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.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 were \$122,271, which included \$45,643 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities 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.

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

**F. Restricted Assets**

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

**G. Capital Assets and Depreciation**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the 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 two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, 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	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-8 years

**H. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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

**I. Net 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 resources restricted for food service operations and federal and State grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Net Assets reports \$1,150,702 of restricted net assets, none of which is restricted by enabling legislation.

**J. Fund Balance Reserves**

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks and instructional materials, and budget stabilization.

**K. Long-Term and Short-Term Obligations**

Long-term obligations are reported in the government-wide financial statements. Short-term obligations are reported on the fund financial statements. The School District reported a liability for notes and general obligation bonds.

**L. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**M. Estimates**

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

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

**NOTE 3 – CHANGE IN BASIS OF ACCOUNTING, CHANGES IN ACCOUNTING PRINCIPLES, AND RESTATEMENT OF FUND EQUITY**

**A. Change in Basis of Accounting**

For fiscal year 2006, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis described in Note 2C.

**B. Changes in Accounting Principles**

For the fiscal year ended June 30, 2006, the School District has implemented *GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”*, and *GASB Statement No. 47, “Accounting for Termination Benefits.”*

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

*GASB Statement No. 47* establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on School District’s financial statements for fiscal year 2006.

**C. Restatement of Fund Equity**

The implementation of the modified cash basis of accounting had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effects on net assets of governmental activities are also presented.

	Bond			Other	Total
	General	Retirement	Replacement	Governmental	Governmental
Fund Balance June 30, 2005	\$375,374	\$597,517	\$0	\$375,389	\$1,348,280
Eliminate Asset Accruals	(3,402,063)	(390,537)	0	(141,929)	(3,934,529)
Eliminate Prepaid Items	(27,243)	0	0	0	(27,243)
Eliminate Interfund Receivables (Payables)	(27,438)	0	0	0	(27,438)
Eliminate Liability Accruals	4,249,436	378,869	0	233,946	4,862,251
Notes Payable	0	0	(65,000)	0	(65,000)
Adjusted Fund Balance June 30, 2005	<u>\$1,168,066</u>	<u>\$585,849</u>	<u>(\$65,000)</u>	<u>\$467,406</u>	<u>\$2,156,321</u>



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

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**NOTE 3 – CHANGE IN BASIS OF ACCOUNTING, CHANGES IN ACCOUNTING PRINCIPLES, AND RESTATEMENT OF FUND EQUITY** (continued)

Governmental Activities Net Assets June 30, 2005	\$6,820,734
Eliminate Government-Wide Financial Statement Adjustments:	
Intergovernmental Receivable	(38,201)
Accounts Recievable	(28,468)
Prepaid Items	(27,243)
Inventory	(35,238)
Income Tax Receivable	(674,444)
Property Tax Receivable	(3,158,178)
Accounts Payable	20,185
Special Termination Benefit Payable	15,000
Matured Compensated Absences Payable	110,396
Accrued Interest Payable	20,380
Accrued Wages and Benefits Payable	1,185,621
Intergovernmental Payable	332,783
Deferred Revenue	2,895,119
Matured Interest Payable	4,031
Compensated Absences Payable	417,325
Adjusted Governmental Activities Net Assets June 30, 2005	<u><u>\$7,859,802</u></u>

**NOTE 4 – COMPLIANCE AND ACCOUNTABILITY**

**A. Compliance**

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

Ohio Revised Code Section 5705.41 (D) requires that a certificate of the fiscal officer stating that the obligation has been lawfully appropriated and is in the treasury be attached when making any contract or giving any order involving the expenditure of money.

Ohio Revised Code Section 9.38 requires that the School District deposit public monies on a daily basis.

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

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**NOTE 4 – COMPLIANCE AND ACCOUNTABILITY** (continued)

**B. Accountability**

At June 30, 2006 the Replacement Fund had a deficit fund balance of \$50,000. The deficit was the result of the requirement to report notes in the fund which received the note proceeds. This deficit will be alleviated when the note is paid.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statement to the budgetary basis statement for the General Fund.

	<u>Net Change in Fund Balance</u>
	<u>General</u>
Modified Cash Basis	\$296,961
Adjustment for Encumbrances	<u>(199,679)</u>
Budget Basis	<u><u>\$97,282</u></u>

**NOTE 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.

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.

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

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by 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) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
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.

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$1,037,744 of the School District's bank balance of \$1,434,851 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

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

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

**B. Investments**

*Credit Risk* - As of June 30, 2006, the School District's only investment was STAROhio. 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.

**NOTE 7 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 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 year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

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

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

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

	<u>2005 Second- Half Collections</u>		<u>2006 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Real Estate	\$126,943,780	91.35%	\$140,756,580	93.39%
Public Utility Personal	7,142,650	5.14%	6,304,140	4.18%
General Business Personal	<u>4,877,076</u>	<u>3.51%</u>	<u>3,659,305</u>	<u>2.43%</u>
Total	<u>\$138,963,506</u>	<u>100.00%</u>	<u>\$150,720,025</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$26.07		\$26.07	

**NOTE 8 - INCOME TAX**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, 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.

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

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**NOTE 9 – INTERFUND ACTIVITY**

The General Fund had transfers out to the Bond Retirement Fund and Other Governmental Funds in the amount of \$74,992 and \$137,832, respectively during fiscal year 2006. The Bond Retirement Fund had transfers out to the Replacement Fund in the amount of \$15,904. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds. The transfer between the Bond Retirement Fund and Replacement Fund was done to move debt activity to the fund that originally received the interest proceeds.

At June 30, 2006, the General Fund had an unpaid interfund cash advance, in the amount of \$27,439, for a short-term loan made to Other Governmental Funds. This is expected to be received within one year.

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability Insurance**

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. During fiscal year 2006, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an 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 17). The School District contracts for property, fleet, and liability insurance with OSP.

Insurance coverage provided includes the following:

Building and Contents – Replacement Cost (\$1,000 deductible)	\$28,992,440
Inland Marine Coverage (\$1,000 deductible)	500,000
Boiler and Machinery (\$1,000 deductible)	14,214,200
Automobile Liability	2,000,000
Uninsured Motorists	1,000,000
Educational General Liability	
Bodily Injury and Property Damage	
Per Occurrence	1,000,000
Sexual Abuse Injury	
Per Occurrence	1,000,000
Personal and Advertising Injury	
Per Occurrence	1,000,000
Fire Damage Limit	500,000
Medical Expense	
Per Person	10,000
Per Occurrence	10,000
General Aggregate Limit	3,000,000
Products	
Completed Operations Limit	1,000,000

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

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

Employers' Liability and Stop Gap Endorsement	
Bodily Injury By Accident	
Per Occurrence	\$1,000,000
Bodily Injury By Disease	
Per Employee	1,000,000
Aggregate	1,000,000
Employee Benefits Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability Coverage From	
Errors and Omissions Injury Limit (\$5,000 deductible)	1,000,000
Aggregate	2,000,000
Employment Practices Injury Limit (\$5,000 deductible)	1,000,000
Aggregate	2,000,000
Defense Costs Cap	1,000,000
Defense Costs Aggregate Cap	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.

**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 17). 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 participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Intergrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

**C. Employee Medical Benefits**

For fiscal year 2006, the School District participated in the Preble County Consortium (the "Consortium"), a shared risk pool consisting of five local school districts and an educational service center (See Note 18). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all the Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [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 \$168,334, \$176,917, and \$175,780, respectively; 100 percent has been contributed for all three fiscal years.

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

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



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

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

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$709,787, \$729,971, and \$818,850, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$9,242 made by the School District and \$14,679 made by the plan members.

**C. Social Security System**

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

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$54,599 for fiscal year 2006.

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

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

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 2006 fiscal year, the School District paid \$76,772 to fund health care benefits, including the surcharge.

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

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**Life Insurance**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Guardian Life.

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

**NOTE 14 - CAPITAL ASSETS**

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

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$247,991	\$0	\$0	\$247,991
Capital Assets, Being Depreciated:				
Land Improvements	417,414	0	0	417,414
Buildings and Improvements	14,799,841	0	0	14,799,841
Furniture, Fixtures, and Equipment	1,224,022	49,502	(15,495)	1,258,029
Vehicles	867,172	70,904	(44,324)	893,752
Total Capital Assets, Being Depreciated	17,308,449	120,406	(59,819)	17,369,036
Less Accumulated Depreciation:				
Land Improvements	(324,058)	(6,476)	0	(330,534)
Buildings and Improvements	(6,134,653)	(317,073)	0	(6,451,726)
Furniture, Fixtures, and Equipment	(948,723)	(56,379)	15,495	(989,607)
Vehicles	(690,525)	(37,166)	44,324	(683,367)
Total Accumulated Depreciation	(8,097,959)	(417,094) *	59,819	(8,455,234)
Capital Assets, Being Depreciated, Net	9,210,490	(296,688)	0	8,913,802
Governmental Activities Capital Assets, Net	\$9,458,481	(\$296,688)	\$0	\$9,161,793

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

Instruction:	
Regular	\$256,838
Special	18,788
Vocational	18,811
Support Services:	
Pupils	763
Instructional Staff	20,332
Administration	4,290
Business	147
Operation and Maintenance of Plant	19,565
Pupil Transportation	39,845
Central	1,033
Operation of Non-Instructional Services	27,972
Extracurricular Activities	8,710
Total Depreciation Expense	\$417,094

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

**NOTE 15 - LONG-TERM OBLIGATIONS**

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

	Outstanding 6/30/2005	Additions	Deductions	Outstanding 6/30/2006	Due in One Year
Governmental Activities					
Notes Payable:					
Energy Conservation					
2005 3.10%	\$275,000	\$225,000	\$275,000	\$225,000	\$0
General Obligation Bonds:					
School Improvement					
1982 10.75%	350,000	0	175,000	175,000	175,000
School Improvement					
1999 5.00%	3,130,000	0	105,000	3,025,000	115,000
Total General Obligation Bonds	3,480,000	0	280,000	3,200,000	290,000
Total Governmental Activities					
Long-Term Liabilities	\$3,755,000	\$225,000	\$555,000	\$3,425,000	\$290,000

*Notes Payable*

On October 26, 2005, the School District issued \$275,000 in notes for the purpose of providing energy conservation measures for the School District, under authority of the Ohio Revised Code Sections 113.06(G) and 3313.372. On October 24, 2006 the School District paid \$50,000 of the note and refinanced the remaining \$225,000. Therefore, the \$275,000 liability outstanding at June 30, 2006 will be split with \$225,000 presented as a long-term liability and \$50,000 presented as a fund liability in the fund financial statements. The notes will be retired from the anticipated savings over ten years and will be paid from the Bond Retirement Fund.

*School Improvement General Obligation Bonds*

On December 1, 1982, Preble Shawnee Local School District issued \$4,050,000 in voted general obligation bonds for the purpose of an addition and improvements to the schools in the School District. The bonds were issued for a twenty-four year period with final maturity at December 1, 2006. The debt will be retired from the Bond Retirement Fund.

On March 3, 1999, Preble Shawnee Local School District issued \$3,692,900 in voted general obligation bonds for the purpose of additions and improvements to the school buildings in the School District. The bonds were issued for a twenty-two year period with final maturity at December 1, 2021. The debt will be retired from the Bond Retirement Fund.

The School District's overall legal debt margin was \$10,496,941 with an unvoted debt margin of \$145,960, and an Energy Conservation debt margin of \$1,038,644 at June 30, 2006.

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

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**NOTE 15 - LONG-TERM OBLIGATIONS** (continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$290,000	\$152,509	\$442,509
2008	120,000	138,225	258,225
2009	130,000	132,910	262,910
2010	135,000	127,145	262,145
2011	145,000	120,731	265,731
2012-2016	885,000	486,556	1,371,556
2017-2021	1,205,000	230,125	1,435,125
2022	290,000	7,250	297,250
<b>Total</b>	<b>\$3,200,000</b>	<b>\$1,395,451</b>	<b>\$4,595,451</b>

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Southwest Ohio Computer Association**

The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$38,041 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

**B. Southwestern Ohio Educational Purchasing Council**

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative 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. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. 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.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS** (continued)

Payments to SOEPC are made from the General Fund. During fiscal year 2006, the School District paid \$943 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.

**C. Southwestern Ohio Instructional Technology Association**

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. 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 in the State-assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

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 or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2006, the School District paid \$1,032 to SOITA. 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.

**NOTE 17 - INSURANCE PURCHASING POOLS**

**A. 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 the 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.

**NOTE 17 - INSURANCE PURCHASING POOLS** (continued)

**B. 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-Schuett 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-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**NOTE 18 - SHARED RISK POOL**

**Preble County Consortium**

The Preble County Consortium (the "Consortium"), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

**NOTE 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 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 amount reserved for budget stabilization represents refunds received from the Bureau of Workers' Compensation. Based upon legislative changes, this is the only money still required to be set-aside for this purpose.

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

**NOTE 19 - SET-ASIDE CALCULATIONS** (continued)

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

	Budget Stabilization	Textbooks and Instructional Materials	Capital Improvements
Set-aside Reserve Balance as of			
June 30, 2005	\$64,830	\$29,995	\$0
Current Year Set-aside Requirement	0	224,692	224,692
Qualifying Disbursements	0	(147,364)	(293,895)
Current Year Offsets	0	0	(441,857)
Totals	<u>\$64,830</u>	<u>\$107,323</u>	<u>(\$511,060)</u>
Set-aside Balance Carried Forward to			
Future Fiscal Years	<u>\$64,830</u>	<u>\$107,323</u>	<u>\$0</u>
Set-aside Reserve Balance as of			
June 30, 2006	<u>\$64,830</u>	<u>\$107,323</u>	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements amounts below zero. This extra amount of offsets may not be used to reduce the set-aside requirements in future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$172,153.

**NOTE 20 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement 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. Litigation**

The School District is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.



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

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**NOTE 21- SUBSEQUENT EVENT**

On October 24, 2006, the School District refinanced the \$275,000 Energy Conservation note in the amount of \$225,000 for the purpose of energy conservation improvements to the high school. The interest rate of the note is 3.75%.

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**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program		10.550		\$66,157		\$66,157
Nutrition Cluster:						
National School Breakfast Program	05PU-2006	10.553	\$ 5,515		\$ 5,515	
	05PU-2004		1,064		1,064	
Total National School Breakfast Program			<u>6,579</u>		<u>6,579</u>	
National School Lunch Program	LLP4-2006	10.555	106,085		106,085	
	LLP4-2005		22,052		22,052	
Total National School Lunch Program			<u>128,137</u>		<u>128,137</u>	
Total Nutrition Cluster			<u>134,716</u>		<u>134,716</u>	
Total U.S. Department of Agriculture			134,716	66,157	134,716	66,157
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2006	84.010	146,206		146,206	
	C1SK-2006		83,653		57,427	
	C1SK-2005		16,347		3,110	
Total Grants to Local Educational Agencies (ESEA Title I)			<u>246,206</u>		<u>206,743</u>	
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)	6BSF-2006	84.027	341,074		341,074	
Special Education: Preschool Grant	PGS1-2006	84.173	5,921		5,921	
	PGS1-2005		500		500	
Total Special Education Cluster			<u>347,495</u>		<u>347,495</u>	
Safe and Drug Free Schools and Communities Total Safe and Drug Free Schools and Communities	DRS1-2006	84.186	6,716		6,716	
Innovative Education Program Strategy	C2S1-2006	84.298	4,581		4,581	
Title II-D: Technology Literacy Challenge Grant	TJS1-2005	84.318	(1,766)			
	TJS1-2006		4,427		3,354	
	TJSL-2006		148,000		145,487	
Total Title II-D: Technology Literacy Challenge Grant			<u>150,661</u>		<u>148,841</u>	
Title II-A: Improving Teacher Quality	TRS1-2006	84.367	71,574		71,574	
<i>Total Passed Through Ohio Department of Education</i>			<u>827,233</u>		<u>785,950</u>	
Total U.S. Department of Education			<u>827,233</u>		<u>785,950</u>	
<b>Total</b>			<u><b>\$ 961,949</b></u>	<u><b>\$ 66,157</b></u>	<u><b>\$ 920,666</b></u>	<u><b>\$ 66,157</b></u>

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

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DISTRIBUTION PROGRAM**

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

**NOTE C – NUTRITION CLUSTER**

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

**NOTE D - MATCHING REQUIREMENTS**

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

**NOTE E – TITLE 1 C1SK**

The Title 1 C1SK-2005 program had \$25,000 of revenue of which \$8,653 was transferred to the Title 1 C1SK-2006 program.

**NOTE F – TITLE IID TECHNOLOGY LITERACY CHALLENGE GRANT**

The Ohio Department of Education transferred \$1,766 of FY2005 Title IID Technology Literacy Challenge Grant (TJS1-2005) to the FY2006 program (TJS1-2006). The \$1,766 transfer is reflected as a negative receipt for TJS1-2005 and included as revenue in TJS1-2006 on the accompanying schedule of federal awards expenditures.



# Mary Taylor, CPA

## Auditor of State

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

Preble Shawnee Local School District  
Preble County  
124 Bloomfield Street  
Camden, Ohio 45311

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 1, 2007, in which we noted the District prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2006-002 and 2006-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School District's management dated March 1, 2007 we reported other matters involving internal control over financial reporting which we did not deem as reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001, 2006-002 and 2006-003. In a separate letter to the School District's management dated March 1, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Mary Taylor, CPA**  
Auditor of State

March 1, 2007



# Mary Taylor, CPA

## Auditor of State

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

Preble Shawnee Local School District  
Preble County  
124 Bloomfield Street  
Camden, Ohio 45311

To the Board of Education:

#### Compliance

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

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

In our opinion, Preble Shawnee Local School District, Preble County, Ohio complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

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

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

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

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

**Mary Taylor, CPA**  
Auditor of State

March 1, 2007



**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster: National School Breakfast: 10.553 National School Lunch: 10.555  Educational Technology State Grants (Title II, Part D, Subpart 1 of the ESEA): 84.318
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2006-001**

**Material Noncompliance**

**Ohio Admin Code, § 117-2-03 (B)**, requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District, as such, we recommend the School District prepares its annual financial report in accordance with generally accepted accounting principles.

**Officials' Response:**

The School District made the decision to move from a full blown generally accepted accounting principles audit because it was too expensive for our School District.

**FINDING NUMBER 2006-002**

**Material Noncompliance/Reportable Condition**

**Ohio Rev. Code, § 5705.41(D)(1)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the School District can authorize the drawing of a warrant for the payment of the amount due. The School District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the School District.

**FINDING NUMBER 2006-002**  
**(Continued)**

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The School District did not properly certify the availability of funds for purchase commitments for thirty percent of expenditures tested and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the School District uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that funds are or will be available prior to obligation by the School District. When prior certification is not possible, “then and now” certification should be used.

We recommend the School District officials and employees obtain the Treasurer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the School District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Treasurer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**Officials' Response:**

The School District has implemented corrective action. We have started using “then and now” certificates.

**FINDING NUMBER 2006-003**

**Material Noncompliance/Reportable Condition**

**Ohio Rev. Code, § 9.38**, provides, in part, that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt, if the total amount of such monies received exceeds one thousand dollars. If the total amount of public money received does not exceed one thousand dollars, the person shall deposit the monies on the next business day following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days following the day of receipt, for making such deposits, and the person is able to safeguard the monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

**FINDING NUMBER 2006-003  
(Continued)**

Sixty-eight percent of student activities receipts tested were not deposited within one business day, ranging from two days to two months. Failure to deposit monies in accordance with the Ohio Revised Code could result in misappropriation of School District funds and also could result in the loss of interest revenue. We recommend the School District make timely deposits of all district monies.

**Officials' Response:**

The School District has implemented corrective action. We have started to work with others so that monies are deposited in a timely manner.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None.

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	School District did not encumber all transactions as required by Ohio Revised Code 5705.41(D)(1)	No	Finding re-issued as 2006-002.





**Mary Taylor, CPA**  
Auditor of State

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT**  
**PREBLE 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 20, 2007**