



Mary Taylor, CPA
Auditor of State

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2006.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis - June 30, 2006	11
Statement of Activities – Modified Cash Basis For the Fiscal Year Ended June 30, 2006	12
Governmental Financial Statements:	
Statement of Assets and Fund Balances – Modified Cash Basis - June 30, 2006	13
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances – Modified Cash Basis – For the Fiscal Year Ended June 30, 2006	14
Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budgetary Basis General Fund – For the Fiscal Year Ended June 30, 2006	15
Statement of Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2006	16
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2006	17
Notes to the Basic Financial Statements for the Fiscal Year Ended June 30, 2006	19
Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2005.....	37
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis - June 30, 2005	45
Statement of Activities – Modified Cash Basis For the Fiscal Year Ended June 30, 2005	46
Governmental Financial Statements:	
Statement of Assets and Fund Balances – Modified Cash Basis - June 30, 2005	47

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Statement of Cash Receipts, Disbursements, and Changes in Fund Balances – Modified Cash Basis – For the Fiscal Year Ended June 30, 2005	48
Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budgetary Basis General Fund – For Fiscal Year Ended June 30, 2005	49
Statement of Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2005	50
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis For the Fiscal Year Ended June 30, 2005	51
Notes to the Basic Financial Statements for the Fiscal Year Ended June 30, 2005	53
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	71



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Russia Local School District
Shelby County
100 School Street
P.O. Box 8
Russia, Ohio 45363

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 Russia Local School District, Shelby County, (the District), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the 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 2, 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 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 Russia Local School District, Shelby County, as of June 30, 2006 and 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the years ended June 30, 2006 and 2005, the District revised its financial presentation 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 14, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information 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.

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

Mary Taylor, CPA
Auditor of State

March 14, 2007

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

This discussion and analysis of the Russia 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 accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2006 are as follows:

- Net assets of governmental activities increased 36% or \$325,759 from prior year.
- The School District's general receipts are primarily property and income taxes and intergovernmental receipts. Property and income taxes represent 39 percent of receipts. Grants and entitlements not restricted to specific programs represent another 43 percent of receipts.
- Of the School District's \$4,029,737 in cash disbursements, only \$698,339 or 17 percent of the disbursements were offset by program receipts.
- Among major funds, the General Fund had \$3,571,081 in receipts and \$3,301,579 in disbursements. The General Fund's balance increased \$270,422 over 2005.

Using the Basic Financial Statements

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 financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

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. The School District also reports long-term investments as assets, valued at cost.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

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 the Statement of Activities

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 function 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 non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's only major governmental funds are the General Fund and the Bond Retirement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

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

Table 1 provides a summary of the School District's net assets for fiscal year 2006 compared to fiscal year 2005 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	\$909,658	\$1,235,417
Net Assets		
Restricted for:		
Capital Projects	\$83,847	\$88,626
Debt Service	218,602	275,581
School Bus Purchases	37,919	39,733
Other Purposes	45,608	39,187
Unrestricted	523,682	792,290
Total Net Assets	\$909,658	\$1,235,417

As mentioned previously, net assets of governmental activities increased \$325,759 during fiscal year 2006. Unrestricted net assets increased as a result of general operating receipts exceeding disbursements by \$268,608. This was due to the receipt of property taxes at a higher rate.

Table 2 reflects the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2006
Receipts:		
Program Receipts:		
Charges for Services	\$ 436,026	\$ 445,492
Operating Grants and Contributions	241,038	220,975
Capital Grants and Contributions	3,058	31,872
Total Program Receipts	680,112	698,339

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

**(Table 2)
Changes in Net Assets
(Continued)**

	Governmental Activities 2005	Governmental Activities 2006
General Receipts:		
Property Taxes	1,246,090	1,410,405
Income Taxes	263,581	306,688
Grants and Entitlements Not Restricted to Specific Programs	1,700,348	1,871,541
Interest and Miscellaneous	44,007	68,523
Total General Receipts	<u>3,254,026</u>	<u>2,657,157</u>
Total Receipts	<u>3,934,138</u>	<u>4,355,496</u>
Disbursements:		
Instruction	1,989,690	2,162,237
Support Services:		
Pupils and Instructional Staff	189,192	191,146
Board of Education, Administration, Fiscal and Business	439,118	463,988
Operation and Maintenance of Plant	365,128	371,575
Pupil Transportation	146,337	133,302
Central	105,452	115,196
Operation of Non-Instructional Services	118,922	119,480
Extracurricular Activities	139,575	159,123
Debt Service	348,846	313,690
Total Disbursements	<u>3,842,260</u>	<u>4,029,737</u>
Increase in Net Assets	91,878	325,759
Net Assets, Beginning of Year	817,780	909,658
Net Assets, End of Year	<u>\$ 909,658</u>	<u>\$1,235,417</u>

Net assets increased as a result of an increase in property taxes due to the passage of a five year operating levy on November 2, 2004. The levy is for 8 mills consisting of 5 mills being a replacement levy with the remaining 2 mills being new. The levy is expected to generate approximately \$319,000 annually. The School District received one-half year of taxes at the new rate in fiscal year 2005 with the full increase collected in fiscal year 2006.

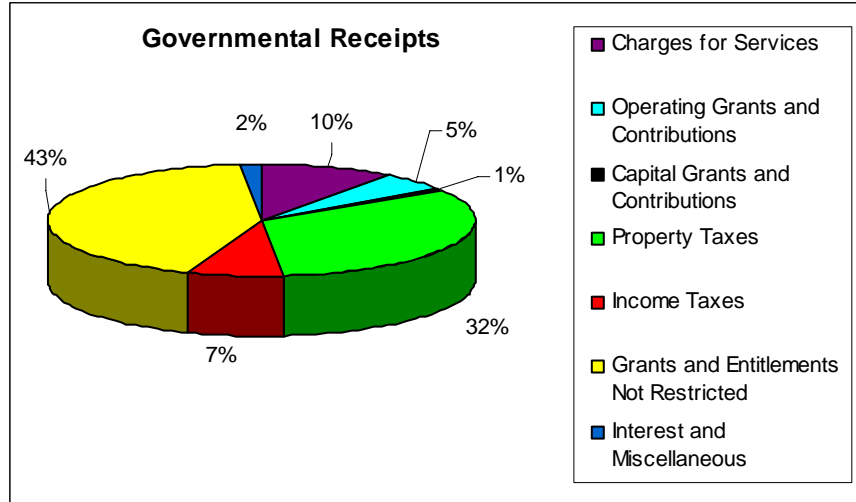
Instruction disbursements increased as a result of the 2 3/4 % salary increases for teachers.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

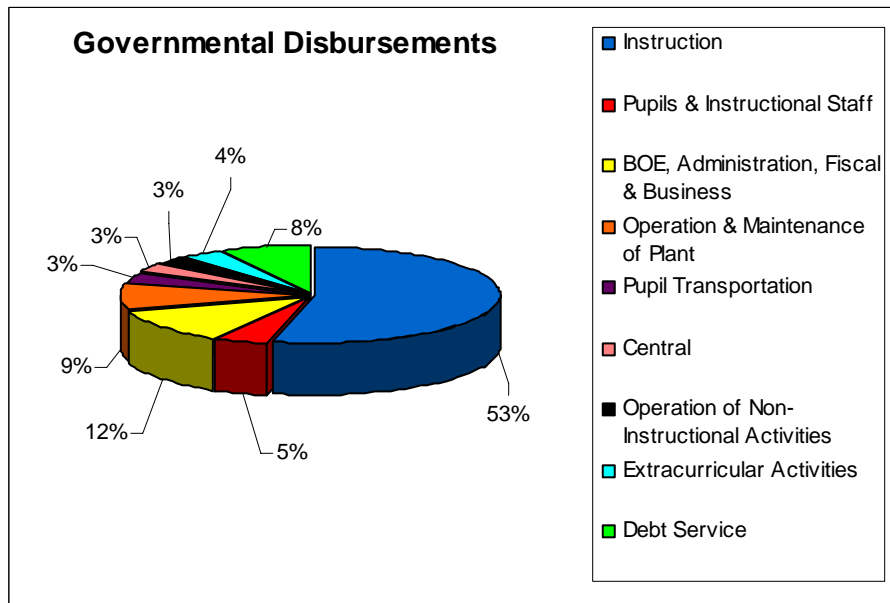
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 32% of receipts while income taxes add an additional 7% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 53% of the School District's disbursements. Support services make up 32% of disbursements.



**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

If you look at the statement of activities on page 11, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2005	Net Cost of Services 2005	Total Cost Of Services 2006	Net Cost of Services 2006
Instruction	\$1,989,690	(\$1,554,014)	\$2,162,237	(\$1,710,664)
Support Services:				
Pupils and Instructional Staff	189,192	(174,060)	191,146	(180,049)
Board of Education, Administration, Fiscal and Business	439,118	(437,537)	463,988	(462,773)
Operation and Maintenance of Plant	365,128	(336,698)	371,575	(340,041)
Pupil Transportation	146,337	(135,664)	133,302	(131,488)
Central	105,452	(94,751)	115,196	(97,208)
Operation of Non-Instructional Services	118,922	(1,789)	119,480	(4,822)
Extracurricular Activities	139,575	(78,789)	159,123	(90,663)
Debt Service	348,846	(348,846)	313,690	(313,690)
Total Disbursements	\$3,842,260	(\$3,162,148)	\$4,029,737	(\$3,331,398)

The dependence upon state foundation and property and income tax receipts is apparent as over 82 percent of governmental activities are supported through these general receipts.

The School District's Funds

Total governmental funds had receipts of \$4,350,717 and disbursements of \$4,029,737. The fund balance of the General Fund increased \$270,422. The primary reason for the increase in the General Fund's balance was due to the passage of a levy in November 2004.

The fund balance of the Bond Retirement Fund increased \$56,979, as a result of receipts generated from property taxes exceeding debt payments.

General Fund Budgeting Highlights

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

For the General Fund, the final budget basis revenue estimate was \$3,349,593 which was the same as the original budgeted estimate. The final total appropriations of \$3,748,666 were the same as the original appropriations. The School District closely monitored spending enabling the School District to spend \$373,339 less than the amounts appropriated, which enabled the school district's General Fund's fund balance to increase from prior year.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

The School District does not currently report its capital assets and infrastructure.

Debt

At June 30, 2006, the School District had a \$4,080,000 building addition bond outstanding, \$100,000 due within one year. The building addition bond was originally \$4,500,000 and will be paid off in fiscal year 2029.

**Table 5
Outstanding Debt at June 30,
2005**

	2005	2006
2001 Building Addition Bond	\$4,175,000	\$ 4,080,000

Prior to the issuance of the 2001 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

For more information on the School District's debt, see Note 11 of the Basic Financial Statements.

Current Issues

The School District is proud of its community support of the public schools. As a testament to the support of this community, on November 2, 2004, the residents of the School District passed a five year operating levy. The levy is for 8 mills consisting of 5 mills being a replacement levy with the remaining 3 mills being new. The levy is expected to generate approximately \$319,000 in property tax receipts annually.

In comparison to other school districts in the state, the School District would not be considered a school district suffering with low wealth. This wealth factor is used by the state is result of dividing the total value of buildings, land, inventory, and equipment used for production by the student enrollment. Therefore, the School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With 21 percent of the School District's wealth coming from business and industry, this could have a significant negative impact on the School District's residential taxpayers.

Another concern that remains on the mind of the administration and the board of education is the State's over reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. In fiscal year 2004, the School District spent more than its receipts. The recently passed levy helped offset this trend in fiscal year 2005 and 2006, by once again enabling receipts to exceed disbursements.

In conclusion, the Russia Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jean Borchers, Treasurer at Russia Local School District, P.O. Box 8, Russia, OH 45363.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,235,417</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$88,626
Debt Service	275,581
School Bus Purchases	39,733
Other Purposes	39,187
Unrestricted	<u>792,290</u>
Total Net Assets	<u><u>\$1,235,417</u></u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$1,713,695	\$290,605	\$38,848		(\$1,384,242)
Special	439,842		122,120		(317,722)
Vocational	291				(291)
Other	8,409				(8,409)
Support Services:					
Pupil	81,056	3,706			(77,350)
Instructional Staff	110,090		7,391		(102,699)
Board of Education	4,837				(4,837)
Administration	316,557		1,215		(315,342)
Fiscal	141,904				(141,904)
Business	690				(690)
Operation and Maintenance of Plant	371,575		1,476	\$30,058	(340,041)
Pupil Transportation	133,302			1,814	(131,488)
Central	115,196		17,988		(97,208)
Operation of Non-Instructional Services	119,480	95,160	19,498		(4,822)
Extracurricular Activities	159,123	56,021	12,439		(90,663)
Principal Retirement	95,000				(95,000)
Interest and Fiscal Charges	218,690				(218,690)
Total Governmental Activities	<u>\$4,029,737</u>	<u>\$445,492</u>	<u>\$220,975</u>	<u>\$31,872</u>	<u>(3,331,398)</u>
General Receipts					
Property Taxes Levied for:					
					1,074,883
					335,522
					306,688
					1,871,541
					42,681
					25,842
					<u>3,657,157</u>
					325,759
					<u>909,658</u>
					<u><u>\$1,235,417</u></u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$792,290	\$275,581	\$127,813	\$1,195,684
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	39,733			39,733
Total Assets	<u>\$832,023</u>	<u>\$275,581</u>	<u>\$127,813</u>	<u>\$1,235,417</u>
Fund Balances				
Reserved for Encumbrances	\$32,542			\$32,542
Reserved for Bus Purchases	39,733			39,733
Unreserved, Undesignated, Reported in:				
General Fund	759,748			759,748
Special Revenue Funds			\$39,187	39,187
Debt Service Fund		\$275,581		275,581
Capital Projects Fund			88,626	88,626
Total Fund Balances	<u>\$832,023</u>	<u>\$275,581</u>	<u>\$127,813</u>	<u>\$1,235,417</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts				
Property Taxes	\$1,074,883	\$335,522		\$1,410,405
Income Taxes	306,688			306,688
Intergovernmental	1,833,065	41,715	\$205,809	2,080,589
Interest	42,681		1,302	43,983
Tuition and Fees	290,605			290,605
Extracurricular Activities	2,096		56,740	58,836
Charges for Services			95,160	95,160
Miscellaneous	21,063		43,388	64,451
Total Receipts	<u>3,571,081</u>	<u>377,237</u>	<u>402,399</u>	<u>4,350,717</u>
Disbursements				
Current:				
Instruction:				
Regular	1,670,728		42,967	1,713,695
Special	319,147		120,695	439,842
Vocational	291			291
Other	8,409			8,409
Support Services:				
Pupil	75,295		5,761	81,056
Instructional Staff	100,832		9,258	110,090
Board of Education	4,837			4,837
Administration	315,551		1,006	316,557
Fiscal	135,336	6,568		141,904
Business	690			690
Operation and Maintenance of Plant	344,297		27,278	371,575
Pupil Transportation	121,170		12,132	133,302
Central	97,860		17,336	115,196
Operation of Non-Instructional Services	5,142		114,338	119,480
Extracurricular Activities	101,994		57,129	159,123
Debt Service:				
Principal Retirement		95,000		95,000
Interest and Fiscal Charges		218,690		218,690
Total Disbursements	<u>3,301,579</u>	<u>320,258</u>	<u>407,900</u>	<u>4,029,737</u>
Excess of Receipts Over (Under) Disbursements	<u>269,502</u>	<u>56,979</u>	<u>(5,501)</u>	<u>320,980</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets			4,779	4,779
Advance In	10,920		10,000	20,920
Advance Out	(10,000)		(10,920)	(20,920)
Total Other Financing Sources (Uses)	<u>920</u>		<u>3,859</u>	<u>4,779</u>
Net Change in Fund Balances	270,422	56,979	(1,642)	325,759
Fund Balances Beginning of Year	<u>561,601</u>	<u>218,602</u>	<u>129,455</u>	<u>909,658</u>
Fund Balances End of Year	<u>\$832,023</u>	<u>\$275,581</u>	<u>\$127,813</u>	<u>\$1,235,417</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$1,021,661	\$1,021,661	\$1,074,883	\$53,222
Income Taxes	268,000	268,000	306,688	38,688
Intergovernmental	1,727,613	1,727,613	1,833,065	105,452
Interest	25,999	25,999	42,681	16,682
Tuition and Fees	283,400	283,400	290,605	7,205
Extracurricular Activities	2,000	2,000	2,096	96
Miscellaneous	20,000	20,000	21,063	1,063
Total Receipts	<u>3,348,673</u>	<u>3,348,673</u>	<u>3,571,081</u>	<u>222,408</u>
Disbursements				
Current:				
Instruction:				
Regular	1,702,911	1,702,911	1,672,126	30,785
Special	362,237	362,237	321,748	40,489
Vocational	500	500	291	209
Other		16,486	8,409	8,077
Support Services:				
Pupils	80,965	80,965	75,846	5,119
Instructional Staff	90,608	102,608	100,833	1,775
Board of Education	4,693	5,193	4,837	356
Administration	316,591	319,591	316,543	3,048
Fiscal	128,207	136,207	135,935	272
Business	700	700	690	10
Operation and Maintenance of Plant	390,365	390,365	361,983	28,382
Pupil Transportation	154,648	154,648	129,584	25,064
Central	100,662	100,662	98,160	2,502
Operation of Non-Instructional Services	4,500	6,500	5,142	1,358
Extracurricular Activities	101,079	105,479	101,994	3,485
Total Disbursements	<u>3,438,666</u>	<u>3,485,052</u>	<u>3,334,121</u>	<u>150,931</u>
Excess of Receipts Over (Under) Disbursements	<u>(89,993)</u>	<u>(136,379)</u>	<u>236,960</u>	<u>373,339</u>
Other Financing Sources (Uses)				
Advances In	920	920	10,920	(10,000)
Advances Out	(10,000)	(10,000)	(10,000)	
Other Financing Uses	(300,000)	(253,614)		253,614
Total Other Financing Sources (Uses)	<u>(309,080)</u>	<u>(262,694)</u>	<u>920</u>	<u>243,614</u>
Net Change in Fund Balances	<u>(399,073)</u>	<u>(399,073)</u>	<u>237,880</u>	<u>636,953</u>
Fund Balance at Beginning of Year	529,645	529,645	529,645	
Prior Year Encumbrances Appropriated	31,956	31,956	31,956	
Fund Balance at End of Year	<u>\$162,528</u>	<u>\$162,528</u>	<u>\$799,481</u>	<u>\$636,953</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$39,578	\$37,573
Net Assets		
Held for Students		\$37,573
Held in Trust for Scholarships:		
Expendable	36,578	
Non-expendable	3,000	
Total Net Assets	\$39,578	\$37,573

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DSITRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$64
Miscellaneous	37,326
Total Additions	<u>37,390</u>
Deductions	
Scholarships	<u>25,100</u>
Change in Net Assets	12,290
Net Assets - Beginning of Year	<u>27,288</u>
Net Assets - End of Year	<u><u>\$39,578</u></u>

See accompanying notes to the basic financial statements.

This page intentionally left blank.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

1. REPORTING ENTITY

Russia 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 and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District was established in 1862 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 20 square miles. It is located in Shelby County, including all of the Village of Russia, Ohio, and portions of Loramie and Cynthian Townships. The School District's instructional/support facilities is staffed by 25 non-certificated employees, 33 certificated teaching personnel and 2 administrative employees to provide services to 476 students. It currently operates one instructional building.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

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 Russia Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization (WOCO)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwestern Ohio Instructional Technology Association (SOITA)

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

1. REPORTING ENTITY (Continued)

Insurance Purchasing Pools:

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

Shelby County Schools Consortium

Southwestern Ohio Educational Purchasing Council Property, Fleet and
Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, 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 (GAAP). Generally accepted accounting principles 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. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program 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.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund - The General Fund 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 Debt Service Fund – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

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

2. Fiduciary Funds

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 not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, 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 revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Budgetary Process

All funds, except agency funds, 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 two digit function level for the General Fund and the Bond Retirement Debt Service Fund and at the fund level for all other funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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 in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation 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.

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".

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2006, the School District invested in nonnegotiable certificates of deposit which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$42,681, which included \$14,980 assigned from other School District funds.

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, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses. There were no assets restricted by enabling legislation at June 30, 2006.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

K. 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 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. 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, music and athletic programs, 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.

N. 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 and bus purchases.

O. 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.

P. 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; accordingly, actual results could differ from those estimates.

3. 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 – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund

\$32,542

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies are to 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution in 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 105 percent of deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$1,312,568. Cash balances per the bank were \$1,322,008. \$163,462 of the School District's deposits was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, Deposits and Investment Risk Disclosures, as of June 30, 2006, \$1,158,546 of the School District's bank balance of \$1,322,008 was exposed to custodial risk and was uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the School District's name.

B. Investments

The School District did not have any investments at June 30, 2006.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

5. PROPERTY TAXES

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

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

5. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at 18.75 percent of true value.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. 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 Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$29,776,300	75.65%	\$30,995,790	79.14%
Public Utility Personal	3,308,620	8.41	2,825,460	7.21
Tangible Personal Property	6,275,150	15.94	5,345,548	13.65
Total	\$39,360,070	100.00%	\$39,166,798	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$42.45		\$42.45	

6. INCOME TAXES

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

7. INTERFUND RECEIVABLES/PAYABLES

The General Fund had an unpaid cash advance at June 30, 2005, of \$920. This short-term loan was made to the Miscellaneous State Grant Special Revenue Fund, which is part of the Other Governmental Funds. The loan was made in anticipation of grant monies. Once the grant monies were received in fiscal year 2006, the loan was repaid.

Also during fiscal year 2006, the General Fund advanced \$10,000 to the Miscellaneous Federal Grant Special Revenue Fund, which is part of Other Governmental Funds. This advance was repaid during fiscal year 2006. The loan was made in anticipation of grant monies. Once the grant monies were received, the loan was repaid.

8. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District contracted with Marsh Insurance Company through the Southwestern Ohio Educational Property, Fleet, and Liability Insurance Program. Coverage provided is as follows:

Building (\$2,500 deductible)	\$11,560,874
Contents (\$2,500 deductible)	2,576,018
Flood & Earthquake per occurrence/aggregate	4,000,000
EDP Equipment	10,000,000
Business Interruption	1,000,000
Automobile Liability (per occurrence)	1,000,000
Uninsured/Underinsured Motorists (per occurrence)	1,000,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate per member	3,000,000
General Liability	
Per occurrence	1,000,000
Aggregate per member	3,000,000
Employers Liability – Stop gap coverage (per occurrence)	1,000,000

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

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Grating Program (the Plan), a workers' compensation insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Univerivce, Inc. provides administrative, cost control and actuarial services to the GRP.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

9. 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 or by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the 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. For fiscal year 2005, 10.57 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 \$57,852, \$60,102 and \$46,998 respectively; 45 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan.

Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

9. DEFINED BENEFIT PENSION PLANS (Continued)

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member’s accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

9. DEFINED BENEFIT PENSION PLANS (Continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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. 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 \$206,109, \$193,629 and \$189,169 respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$284 made by the School District and \$270 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 State Teachers Retirement System of Ohio have an option to choose social security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid."

10. 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 Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2006, and June 20, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$15,855 for fiscal year 2006.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

10. POSTEMPLOYMENT BENEFITS (Continued)

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, a decrease from 3.43 percent in 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. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$26,676.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 (the latest information available) were \$158,751,207. At June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

11. DEBT

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

	<u>Amount Outstanding 6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2006</u>	<u>Amount Due in One Year</u>
Governmental Activities					
Building Bond					
Addition 5.47%	\$4,175,000	\$0	(\$95,000)	\$4,080,000	\$100,000

On May 9, 2001, Russia Local School District issued \$4,500,000 in voted general obligation bonds for the purpose of an addition and improvement to the building. The bonds were issued for a 28 year period with final maturity on December 1, 2028, with an interest rate of 5.47%. The bonds will be paid from the Debt Service Fund.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

11. DEBT (Continued)

Prior to the issuance of the 2001 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 100,000	\$ 214,935	\$ 314,935
2008	105,000	210,859	315,859
2009	105,000	206,527	311,527
2010	110,000	201,930	311,930
2011	115,000	196,979	311,979
2012-2016	665,000	896,593	1,561,593
2017-2021	875,000	698,031	1,573,031
2022-2026	1,145,000	418,724	1,563,724
2027-2029	860,000	76,188	936,188
Total	<u>\$4,080,000</u>	<u>\$3,120,766</u>	<u>\$7,200,766</u>

12. SET-ASIDE REQUIREMENTS

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2006.

	Textbooks and Instructional Materials	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	(\$36,270)	(\$4,859,547)
Current Year Set-aside Requirement	65,636	65,636
Qualifying Disbursements	(53,833)	(55,235)
Totals	<u>(\$24,467)</u>	<u>(\$4,849,146)</u>
Set-aside Balances Carried Forward to Future Fiscal Years	<u>(\$24,467)</u>	<u>(\$4,849,146)</u>
Set-aside Reserve Balances as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials and capital acquisitions amounts below zero. These extra amounts of disbursements may be used to reduce the set-aside requirements in future fiscal years.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

13. DONOR-RESTRICTED ENDOWMENTS

The School District's private purpose trust funds include donor-restricted endowments. Net Assets-Endowments of \$3,000 represents the principal portion of the endowment. The amount of net appreciation in the donor-restricted investments that is available for expenditures for the governing body is \$36,578 and is included as net assets held in trust for scholarships. State law permits the governing body to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The Russia Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. 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 districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative from the fiscal agent. The School District paid WOCO \$28,115 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 124 school districts in 18 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 shall forfeit 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. Payments to SOEPC are made from the General Fund. During fiscal year 2006, the School District paid \$24,389 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, Vandalia, OH 45377.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

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-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, 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 representative. 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 \$3,765 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

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

Shelby County Schools Consortium - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Medical Life Insurance Company for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. In fiscal year 2006, Russia Local School District contributed \$320,376 from the General Fund. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

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

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program
– The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a seven member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

15. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

This discussion and analysis of the Russia Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2005 are as follows:

- Net assets of governmental activities increased 11% or \$91,878 from prior year.
- The School District's general receipts are primarily property and income taxes and intergovernmental receipts. Property and income taxes represent 39 percent of receipts. Grants and entitlements not restricted to specific programs represent another 43 percent of receipts.
- Of the School District's \$3,842,260 in cash disbursements, only \$680,112 or 18 percent of the disbursements were offset by program receipts.
- Among major funds, the General Fund had \$3,206,326 in receipts and \$3,083,496 in disbursements. The General Fund's balance increased \$116,895 over 2004.

Using the Basic Financial Statements

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 financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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. The School District also reports long-term investments as assets, valued at cost.

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 the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005, 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 function 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 non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's only major governmental funds are the General Fund and the Bond Retirement Fund.

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

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Equity in Pooled Cash and Cash Equivalents	\$909,658	\$817,780
Net Assets		
Restricted for:		
Capital Projects	\$83,847	\$84,900
Debt Service	218,602	231,341
School Bus Purchases	37,919	34,862
Other Purposes	45,608	56,833
Unrestricted	523,682	409,844
Total Net Assets	\$909,658	\$817,780

As mentioned previously, net assets of governmental activities increased \$91,878 during fiscal year 2005. Unrestricted net assets increased \$113,838 as a result of general operating receipts exceeding disbursements. This was due to the receipt of one-half year of property taxes at a higher rate.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2005. Since the School District did not prepare financial statements in this format for fiscal year 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

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

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services	\$436,016
Operating Grants and Contributions	241,038
Capital Grants and Contributions	3,058
Total Program Receipts	680,112
General Receipts:	
Property Taxes	1,246,090
Income Taxes	263,581
Grants and Entitlements Not Restricted to Specific Programs	1,700,348
Interest and Miscellaneous	44,007
Total General Receipts	3,254,026
Total Receipts	3,934,138
Disbursements:	
Instruction	1,989,690
Support Services:	
Pupils and Instructional Staff	189,192
Board of Education, Administration, Fiscal and Bu	439,118
Operation and Maintenance of Plant	365,128
Pupil Transportation	146,337
Central	105,452
Operation of Non-Instructional Services	118,922
Extracurricular Activities	139,575
Debt Service	348,846
Total Disbursements	3,842,260
Increase in Net Assets	91,878
Net Assets, July 1, 2004	817,780
Net Assets, June 30, 2005	\$909,658

Net assets increased as a result of an increase in property taxes due to the passage of a five year operating levy on November 2, 2004. The levy is for 8 mills consisting of 5 mills being a replacement levy with the remaining 2 mills being new. The levy is expected to generate approximately \$319,000 annually. The School District received one-half year of taxes at the new rate.

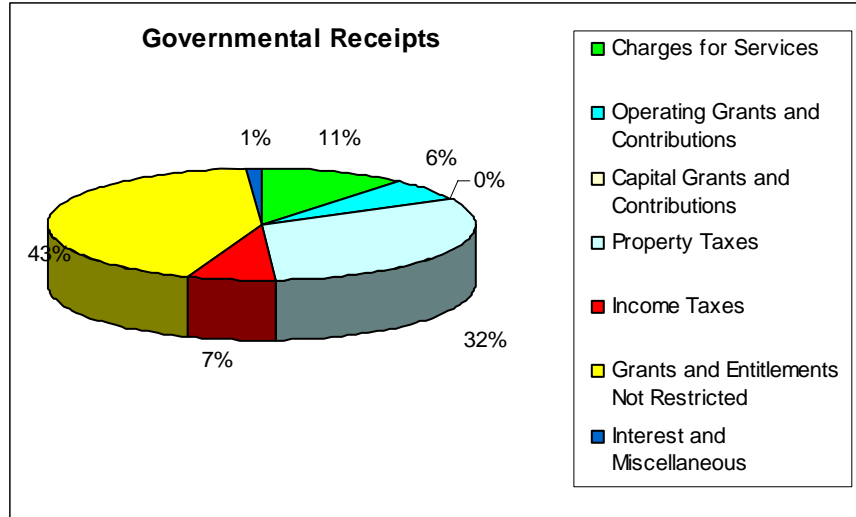
Instruction disbursements increased as a result of the 2 ¼ % salary increases for teachers.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

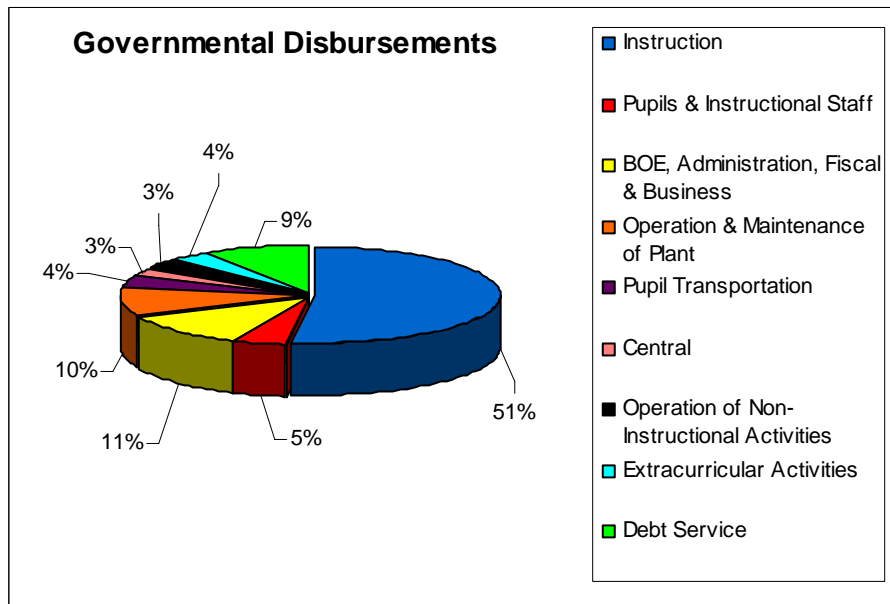
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 32% of receipts while income taxes add an additional 7% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 51% of the School District's disbursements. Support services make up 33% of disbursements.



**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

If you look at the statement of activities on page 46, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
Instruction	\$1,989,690	(\$1,554,014)
Support Services:		
Pupils and Instructional Staff	189,192	(174,060)
Board of Education, Administration, Fiscal and Business	439,118	(437,537)
Operation and Maintenance of Plant	365,128	(336,698)
Pupil Transportation	146,337	(135,664)
Central	105,452	(94,751)
Operation of Non-Instructional Services	118,922	(1,789)
Extracurricular Activities	139,575	(78,789)
Debt Service	348,846	(348,846)
Total Expenses	\$3,842,260	(\$3,162,148)

The dependence upon state foundation and property and income tax receipts is apparent as over 82 percent of governmental activities are supported through these general receipts.

The School District's Funds

Total governmental funds had receipts of \$3,934,065 and disbursements of \$3,842,260. The fund balance of the General Fund increased \$116,895. The primary reason for the increase in the General Fund's balance was due to the passage of a levy in November 2004.

The fund balance of the Bond Retirement Fund decreased \$12,739, as a result of debt payments exceeding receipts generated from property taxes.

General Fund Budgeting Highlights

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

For the General Fund, the final budget basis revenue estimate was \$3,008,855 which was the same as the original budgeted estimate. The final total appropriations of \$3,453,180 were the same as the original appropriations. The School District closely monitored spending enabling the School District to spend \$331,720 less than the amounts appropriated, which enabled the school district's General Fund's fund balance to increase from prior year.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

The School District does not currently report its capital assets and infrastructure.

Debt

At June 30, 2005, the School District had a \$4,175,000 building addition bond outstanding, \$95,000 due within one year. During fiscal year 2005, the School District made its final payment on the gym addition bond which was originally issued for \$585,000. The building addition bond was originally \$4,500,000 and will be paid off in fiscal year 2029.

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

	<u>2004</u>	<u>2005</u>
1985 Gym Addition Bond	\$35,000	\$0
2001 Building Addition Bond	4,265,000	4,175,000
Total General Obligation Bonds	<u>\$4,300,000</u>	<u>\$4,175,000</u>

Prior to the issuance of the 2001 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

For more information on the School District's debt, see Note 12 of the Basic Financial Statements.

Current Issues

The School District is proud of its community support of the public schools. As a testament to the support of this community, on November 2, 2004, the residents of the School District passed a five year operating levy. The levy is for 8 mills consisting of 5 mills being a replacement levy with the remaining 3 mills being new. The levy is expected to generate approximately \$319,000 in property tax receipts annually.

In comparison to other school districts in the state, the School District would not be considered a school district suffering with low wealth. This wealth factor is used by the state is result of dividing the total value of buildings, land, inventory, and equipment used for production by the student enrollment. Therefore, the School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With 23 percent of the School District's wealth coming from business and industry, this could have a significant negative impact on the School District's residential taxpayers.

Another concern that remains on the mind of the administration and the board of education is the State's over reliance on the local taxpayer to maintain current levels of funding. This requires management to plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. In fiscal year 2004, the School District spent more than its receipts. The recently passed levy helped offset this trend in fiscal year 2005, by once again enabling receipts to exceed disbursements.

In conclusion, the Russia Local School District continues to be committed to financial as well as educational excellence. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jean Borchers, Treasurer at Russia Local School District, P.O. Box 8, Russia, OH 45363.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$909,658</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$83,847
Debt Service	218,602
School Bus Purchases	37,919
Other Purposes	45,608
Unrestricted	<u>523,682</u>
Total Net Assets	<u><u>\$909,658</u></u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets	
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$1,574,550	\$285,292	\$31,147		(\$1,258,111)
Special	415,140		119,237		(295,903)
Support Services:					
Pupil	80,935	4,331			(76,604)
Instructional Staff	108,257		10,801		(97,456)
Board of Education	4,306				(4,306)
Administration	309,905		1,349		(308,556)
Fiscal	124,225		232		(123,993)
Business	682				(682)
Operation and Maintenance of Plant	365,128	3,545	24,885		(336,698)
Pupil Transportation	146,337		7,615	\$3,058	(135,664)
Central	105,452		10,701		(94,751)
Operation of Non-Instructional Services	118,922	94,136	22,997		(1,789)
Extracurricular Activities	139,575	48,712	12,074		(78,789)
Principal Retirement	125,000				(125,000)
Interest and Fiscal Charges	223,846				(223,846)
Total Governmental Activities	<u>\$3,842,260</u>	<u>\$436,016</u>	<u>\$241,038</u>	<u>\$3,058</u>	<u>(3,162,148)</u>
General Receipts					
Property Taxes Levied for:					
					936,364
					309,726
					263,581
					1,700,348
					21,156
					22,851
					<u>3,254,026</u>
					91,878
					817,780
					<u>\$909,658</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$523,682	\$218,602	\$129,455	\$871,739
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	37,919			37,919
Total Assets	<u>\$561,601</u>	<u>\$218,602</u>	<u>\$129,455</u>	<u>\$909,658</u>
Fund Balances				
Reserved for Encumbrances	\$31,956		\$1,514	\$33,470
Reserved for Bus Purchases	37,919			37,919
Unreserved, Undesignated, Reported in:				
General Fund	491,726			491,726
Special Revenue Funds			44,094	44,094
Debt Service Fund		\$218,602		218,602
Capital Projects Fund			83,847	83,847
Total Fund Balances	<u>\$561,601</u>	<u>\$218,602</u>	<u>\$129,455</u>	<u>\$909,658</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts				
Property Taxes	\$936,364	\$309,726		\$1,246,090
Income Taxes	263,581			263,581
Intergovernmental	1,673,079	31,523	\$193,136	1,897,738
Interest	21,156		707	21,863
Tuition and Fees	285,292			285,292
Extracurricular Activities	2,651		50,192	52,843
Charges for Services			94,136	94,136
Miscellaneous	24,203		48,319	72,522
Total Receipts	<u>3,206,326</u>	<u>341,249</u>	<u>386,490</u>	<u>3,934,065</u>
Disbursements				
Current:				
Instruction:				
Regular	1,544,486		30,064	1,574,550
Special	291,158		123,982	415,140
Support Services:				
Pupil	76,333		4,602	80,935
Instructional Staff	97,693		10,564	108,257
Board of Education	4,306			4,306
Administration	308,164	632	1,109	309,905
Fiscal	119,483	4,510	232	124,225
Business	682			682
Operation and Maintenance of Plant	321,170		43,958	365,128
Pupil Transportation	128,778		17,559	146,337
Central	95,402		10,050	105,452
Operation of Non-Instructional Services	4,171		114,751	118,922
Extracurricular Activities	91,670		47,905	139,575
Debt Service:				
Principal Retirement		125,000		125,000
Interest and Fiscal Charges		223,846		223,846
Total Disbursements	<u>3,083,496</u>	<u>353,988</u>	<u>404,776</u>	<u>3,842,260</u>
Excess of Receipts Over (Under) Disbursements	<u>122,830</u>	<u>(12,739)</u>	<u>(18,286)</u>	<u>91,805</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	73			73
Advance In			920	920
Advance Out	(920)			(920)
Transfers In			5,088	5,088
Transfers Out	(5,088)			(5,088)
Total Other Financing Sources (Uses)	<u>(5,935)</u>		<u>6,008</u>	<u>73</u>
Net Change in Fund Balances	116,895	(12,739)	(12,278)	91,878
Fund Balances Beginning of Year - Restated (Note 3)	<u>444,706</u>	<u>231,341</u>	<u>141,733</u>	<u>817,780</u>
Fund Balances End of Year	<u>\$561,601</u>	<u>\$218,602</u>	<u>\$129,455</u>	<u>\$909,658</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$894,332	\$894,332	\$936,364	\$42,032
Income Taxes	273,333	273,333	263,581	(9,752)
Intergovernmental	1,489,845	1,489,845	1,673,079	183,234
Interest	9,000	9,000	21,156	12,156
Tuition and Fees	309,645	309,645	285,292	(24,353)
Extracurricular Activities	3,700	3,700	2,651	(1,049)
Miscellaneous	29,000	29,000	24,203	(4,797)
Total Receipts	<u>3,008,855</u>	<u>3,008,855</u>	<u>3,206,326</u>	<u>197,471</u>
Disbursements				
Current:				
Instruction:				
Regular	1,605,272	1,605,272	1,552,584	52,688
Special	282,054	292,054	291,292	762
Vocational	1,000	1,000		1,000
Other		6,500		6,500
Support Services:				
Pupils	90,757	90,757	76,676	14,081
Instructional Staff	94,987	99,987	99,493	494
Board of Education	5,046	5,046	4,306	740
Administration	357,973	357,973	311,091	46,882
Fiscal	127,890	127,890	120,648	7,242
Business	1,300	1,300	682	618
Operation and Maintenance of Plant	418,059	418,059	331,367	86,692
Pupil Transportation	196,184	196,184	135,916	60,268
Central	106,328	106,328	95,464	10,864
Operation of Non-Instructional Services	6,000	6,000	4,171	1,829
Extracurricular Activities	112,330	112,830	91,762	21,068
Total Disbursements	<u>3,405,180</u>	<u>3,427,180</u>	<u>3,115,452</u>	<u>311,728</u>
Excess of Receipts Over (Under) Disbursements	<u>(396,325)</u>	<u>(418,325)</u>	<u>90,874</u>	<u>509,199</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures			73	73
Transfers Out		(5,088)	(5,088)	
Advances Out		(920)	(920)	
Other Financing Uses	(48,000)	(19,992)		19,992
Total Other Financing Sources (Uses)	<u>(48,000)</u>	<u>(26,000)</u>	<u>(5,935)</u>	<u>20,065</u>
Net Change in Fund Balances	(444,325)	(444,325)	84,939	529,264
Fund Balance at Beginning of Year	411,071	411,071	411,071	
Prior Year Encumbrances Appropriated	33,635	33,635	33,635	
Fund Balance at End of Year	<u>\$381</u>	<u>\$381</u>	<u>\$529,645</u>	<u>\$529,264</u>

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$27,288	\$36,913
Net Assets		
Restricted for Students		36,913
Held in Trust for Scholarships:		
Expendable	24,288	
Non-expendable	3,000	
Total Net Assets	\$27,288	\$36,913

See accompanying notes to the basic financial statements.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$70
Miscellaneous	44,847
Total Additions	<u>44,917</u>
Deductions	
Scholarships	<u>24,800</u>
Change in Net Assets	20,117
Net Assets - Beginning of Year	<u>7,171</u>
Net Assets - End of Year	<u><u>\$27,288</u></u>

See accompanying notes to the basic financial statements.

This page intentionally left blank.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. REPORTING ENTITY

Russia 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 and provides educational services as authorized by State and federal agencies. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms.

The School District was established in 1862 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 20 square miles. It is located in Shelby County, including all of the Village of Russia, Ohio, and portions of Loramie and Cynthian Townships. The School District's instructional/support facilities is staffed by 25 non-certificated employees, 33 certificated teaching personnel and 2 administrative employees to provide services to 474 students. It currently operates one instructional building.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

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 Russia Local School District, this includes general operations, food service, and student related activities of the School District.

B. Component Units

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District does not have any component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Western Ohio Computer Organization (WOCO)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwestern Ohio Instructional Technology Association (SOITA)

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

1. REPORTING ENTITY (Continued)

Insurance Purchasing Pools:

Ohio Association of School Business Officials Workers'

Compensation Group Rating Plan

Shelby County Schools Consortium

Southwestern Ohio Educational Purchasing Council Property, Fleet and
Liability Insurance Program

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, 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 (GAAP). Generally accepted accounting principles 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. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. However, the School District does not have any business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program 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.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund - The General Fund 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 Debt Service Fund – The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

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

2. Fiduciary Funds

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 not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for those student activity programs which have student participation in the activities and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, 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 revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Budgetary Process

All funds, except agency funds, 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 two digit function level for the General Fund and the Bond Retirement Debt Service Fund and at the fund level for all other funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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 in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation 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.

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".

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005, the School District invested in nonnegotiable certificates of deposit which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$21,156, which included \$9,251 assigned from other School District funds.

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, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

K. 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 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. 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, music and athletic programs, 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.

N. 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 and bus purchases.

O. 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.

P. 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; accordingly, actual results could differ from those estimates.

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

For fiscal year 2005, the School District changed its method of accounting for financial reporting from a basis of accounting formerly prescribed for school districts by the Auditor of State to the other comprehensive basis of accounting described in Note 2. This basis of accounting is similar to the cash receipts and disbursements basis. The School District recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

The financial statements now include government-wide financial statements presented on a modified cash basis and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in one column. The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental programs reflects the governmental fund balances for governmental funds at June 30, 2004.

Also for fiscal year 2005, the food service enterprise fund was reclassified to a special revenue fund and is considered a non-major fund. The Copeland Chamber grant was formerly classified as an expendable trust fund and is now considered a special revenue fund. The scholarship fund was formerly classified as an expendable trust fund and is now classified as a private purpose trust fund. These changes reduced proprietary fund net assets from \$24,734 to \$0, decreased fiduciary net assets \$7,693, from \$14,864 to \$7,171, and increased fund balance of governmental funds \$32,302, from \$785,478 to \$817,780.

4. 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 – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund	\$31,956
--------------	----------

5. 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.

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.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Protection of the School District's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the carrying amount of the School District's deposits was \$973,859. Cash balances per the bank were \$1,026,910. \$174,399 of the School District's deposits was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, Deposits and Investment Risk Disclosures, as of June 30, 2005, \$852,511 of the School District's bank balance of \$1,026,910 was exposed to custodial risk and was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

The School District did not have any investments at June 30, 2005.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. PROPERTY TAXES (Continued)

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. 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 Shelby County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$28,474,720	73.49%	\$29,776,300	75.65%
Public Utility Personal	3,347,040	8.64	3,308,620	8.41
Tangible Personal Property	6,927,030	17.87	6,275,150	15.94
Total	<u>\$38,748,790</u>	<u>100.00%</u>	<u>\$39,360,070</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$39.45		\$42.45	

7. INCOME TAXES

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. INTERFUND RECEIVABLES/PAYABLES

The General Fund had an unpaid cash advance at June 30, 2005, of \$920. This short-term loan was made to the Miscellaneous State Grant Special Revenue Fund, which is part of the Other Governmental Funds. The loan was made in anticipation of grant monies. Once the grant monies are received the loan will be repaid. This is expected to be repaid within one year.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District contracted with Marsh Insurance Company through the Southwestern Ohio Educational Property, Fleet, and Liability Insurance Program. Coverage provided is as follows:

Building (\$2,500 deductible)	\$10,930,936
Contents (\$2,500 deductible)	2,445,290
Flood & Earthquake per occurrence/aggregate	4,000,000
EDP Equipment	10,000,000
Business Interruption	1,000,000
Automobile Liability (per occurrence)	1,000,000
Uninsured/Underinsured Motorists (per occurrence)	1,000,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate per member	3,000,000
General Liability	
Per occurrence	1,000,000
Aggregate per member	3,000,000
Employers Liability – Stop gap coverage (per occurrence)	1,000,000

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

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Grating Program (the Plan), a workers' compensation insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Univserivce, Inc. provides administrative, cost control and actuarial services to the GRP.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. 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 or by calling (614) 222-5853.

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004 and 2003 were \$60,102, \$46,998 and \$41,347 respectively; 50 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

The 31st year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2005, 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. 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, 2005, 2004, and 2003 were \$193,629, \$189,169, and \$212,843 respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or State Teachers Retirement System of Ohio have an option to choose social security or the School Employees Retirement System. As of June 30, 2005, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid."

11. 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 Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2005, and June 20, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$14,895 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, 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. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease from 4.91 percent in fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$27,181.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for next year. Net health care costs for the fiscal year ended June 30, 2005, were \$178,221,113. At June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projects, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

12. DEBT

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Amount Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2005</u>	<u>Amount Due in One Year</u>
Governmental Activities					
Gym Bond Addition 9.375%	\$35,000	\$0	(\$35,000)	\$0	\$0
Building Bond Addition 5.47%	<u>4,265,000</u>	<u>0</u>	<u>(90,000)</u>	<u>4,175,000</u>	<u>95,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$4,300,000</u>	<u>\$0</u>	<u>(\$125,000)</u>	<u>\$4,175,000</u>	<u>\$95,000</u>

On November 1, 1985, Russia Local School District issued \$585,000 in voted general obligation bonds for the purpose of an addition of a high school gymnasium. The bonds were issued for a nineteen year period with final maturity at December 1, 2004, with an interest rate of 9.375%. The bond were paid off in fiscal year 2005 from the Debt Service Fund.

On May 9, 2001, Russia Local School District issued \$4,500,000 in voted general obligation bonds for the purpose of an addition and improvement to the building. The bonds were issued for a 28 year period with final maturity on December 1, 2028, with an interest rate of 5.47%. The bonds will be paid from the Debt Service Fund.

Prior to the issuance of the 2001 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. DEBT (Continued)

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 95,000	\$ 218,690	\$ 313,690
2007	100,000	214,935	314,935
2008	105,000	210,859	315,859
2009	105,000	206,527	311,527
2010	110,000	201,930	311,930
2011-2015	635,000	927,586	1,562,586
2016-2020	825,000	744,030	1,569,030
2021-2025	1,085,000	481,929	1,566,929
2026-2029	1,115,000	132,969	1,247,969
Total	<u>\$4,175,000</u>	<u>\$3,339,455</u>	<u>\$7,514,455</u>

13. SET-ASIDE REQUIREMENTS

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements during fiscal year 2005.

	Textbooks and Instructional Materials	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2004	(\$50,169)	(\$4,831,548)
Current Year Set-aside Requirement	60,118	60,118
Qualifying Disbursements	(46,219)	(88,117)
Totals	<u>(\$36,270)</u>	<u>(\$4,859,547)</u>
Set-aside Balances Carried Forward to Future Fiscal Years	<u>(\$36,270)</u>	<u>(\$4,859,547)</u>
Set-aside Reserve Balances as of June 30, 2005	<u>\$0</u>	<u>\$0</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials and capital acquisitions amounts below zero. These extra amounts of disbursements may be used to reduce the set-aside requirements in future fiscal years.

14. INTERFUND TRANSFERS

During fiscal year 2005, the general fund transferred out \$5,088 to the Permanent Improvement Capital Projects Fund, which is shown as part of the Other Governmental Funds. This was to return an amount owed to the permanent improvement fund for an accounting correction.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. DONOR-RESTRICTED ENDOWMENTS

The School District's private purpose trust funds include donor-restricted endowments. Net Assets-Endowments of \$3,000 represents the principal portion of the endowment. The amount of net appreciation in the donor-restricted investments that is available for expenditures for the governing body is \$24,288 and is included as net assets held in trust for scholarships. State law permits the governing body to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Western Ohio Computer Organization - The Russia Local School District is a participant in the Western Ohio Computer Organization (WOCO) which is a computer consortium. WOCO is an association of the public school districts in a geographic area determined by the Ohio Department of Education. 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 districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools within each county plus one representative from the fiscal agent. The School District paid WOCO \$17,540 for services provided during the fiscal year. Financial information can be obtained from Louis Ivey, who serves as Director, at 129 E. Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 123 school districts in 18 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 shall forfeit 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. Payments to SOEPC are made from the general fund. During fiscal year 2005, the School District paid \$26,200 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, Vandalia, OH 45377.

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-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, 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 representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

**RUSSIA LOCAL SCHOOL DISTRICT
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2005, the School District paid \$802 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.

B. Insurance Purchasing Pools

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

Shelby County Schools Consortium - The Shelby County Schools Consortium is an insurance purchasing pool among seven local school districts and the Shelby County Educational Service Center. The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts together to provide health/surgical, dental, and term-life benefits to its participants at a lower rate than if individual districts acted independently.

Each school district pays monthly premiums to the provider, currently Anthem Blue Cross/Blue Shield for health and dental insurance, and Medical Life Insurance Company for life insurance. The Consortium is governed by an administrative committee consisting of the superintendent from each participating district and the service center. The degree of control exercised by any participating school district is limited to its representation on the committee. In fiscal year 2005, Russia Local School District contributed \$268,195 from the General Fund. Financial information can be obtained from Mike Elsass, who serves as consultant to the group, Elsass/Hecker CLU's, 131 North Ludlow St., Dayton, Ohio 45402.

Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program - The School District participates in the Southwestern Ohio Educational Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

17. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



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*

Russia Local School District
Shelby County
100 School Street
P.O. Box 8
Russia, Ohio 45363

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Russia Local School District, Shelby County, (the District), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2007, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 14, 2007, we reported other matters involving internal control over financial reporting we did not deem 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 no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 14, 2007, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

Russia Local School District
Shelby County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

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

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

Mary Taylor, CPA
Auditor of State

March 14, 2007



Mary Taylor, CPA
Auditor of State

RUSSIA LOCAL SCHOOL DISTRICT

SHELBY 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
MAY 10, 2007**