

TOLLES CAREER AND TECHNICAL CENTER
MADISON COUNTY

Basic Financial Statements
June 30, 2006



Mary Taylor, CPA
Auditor of State

Tolles Career & Technical Center
7877 US Highway 42 South
Plain City, Ohio 43064-9554

We have reviewed the *Independent Auditor's Report* of the Tolles Career & Technical Center, Madison County, prepared by Kennedy, Cottrell & Associates, LLC for the audit period July 1, 2005 to June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Tolles Career & Technical Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 30, 2007

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TOLLES CAREER AND TECHNICAL CENTER
Basic Financial Statements

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Tolles Career & Technical Center
7877 US Highway 42 South
Plain City, Ohio 43064

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of the Center'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
December 1, 2006

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**Tolles Career and Technical Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

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

Financial Highlights

Key financial highlights for 2006 are as follows:

Overall:

- Total net assets in Governmental Activities were \$18,798,949, a decrease of \$3,670,633 from the comparable amount at June 30, 2005. This was due to increased expenses for new programs, while revenues remained consistent with the previous year.
- The General Fund reported a positive fund balance of \$10,262,172 according to the Balance Sheet.
- The District has no outstanding debt.
- Subsequent to year end, the Madison County Budget Commission approved the reinstatement of the a portion of the Center's effective millage which was temporarily reduced in January, 2003. Effective January 1, 2007, the Center's effective property tax millage will increase from .5 mills to 1.3 mills. This reinstatement of millage will result in an increase in property tax revenue of approximately \$3.1 million in 2007.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in a single column. In the case of the District, the general fund is by far the most significant fund.

Reporting the 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 District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-

**Tolles Career and Technical Center
Management's Discussion and Analysis, Continued
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the 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 District reports on the following activity type:

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General Fund.

Governmental Funds: The District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The District's basic services are reported in these funds and focus on how money flows into and out of those funds as well as the balances available for spending at fiscal year end. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's operations. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide

**Tolles Career and Technical Center
Management's Discussion and Analysis, Continued
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

The District financial health continues to be demonstrated by its ability to fund new programs as the needs arise. In 2006, the District expended \$3.67 million more than the \$6.8 million in revenues earned primarily on new programs and increased enrollment which occurred primarily in 2005. The District's Net Asset balance at June 30, 2006 was \$18.8 million with \$9.9 million in unrestricted net assets available to meet future District obligations.

Net Assets - Governmental Activities		
	<u>2006</u>	<u>2005</u>
Current assets	\$ 14,012,034	\$ 17,407,433
Capital assets	<u>8,331,105</u>	<u>8,338,547</u>
Total assets	<u>22,343,139</u>	<u>25,745,980</u>
Current liabilities	3,050,335	2,767,567
Long-term liabilities	<u>493,855</u>	<u>508,831</u>
Total liabilities	<u>3,544,190</u>	<u>3,276,398</u>
Net Assets:		
Invested in capital, net of debt	8,297,387	8,293,625
Restricted	561,646	574,151
Unrestricted	<u>9,939,916</u>	<u>13,601,806</u>
Total net assets	<u>\$ 18,798,949</u>	<u>\$ 22,469,582</u>

Current assets decreased in 2006 as the District used its cash balance to fund new programs initiated in 2005. Capital Assets increased due to the purchase of capital assets for new and existing programs.

Total liabilities increased approximately \$268 thousand at June 30, 2006 as compared to the amount reported at June 30, 2005 due to the impact of normal salary increases on accrued wages and an increase in compensated absences due to be paid in early 2007.

**Tolles Career and Technical Center
Management's Discussion and Analysis, Continued
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

Change in Net Assets - Governmental Activities

	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services	\$ 354,935	\$ 283,936
Operating grants	479,290	472,550
General revenues:		
Property taxes	2,898,969	2,601,609
Grants and entitlements	2,317,650	2,331,380
Other	<u>744,224</u>	<u>537,498</u>
Total revenues	<u>6,795,068</u>	<u>6,226,973</u>
 Program expenses:		
Instructional:		
Regular	1,267,036	1,442,564
Special	519,789	496,725
Vocational	3,982,085	3,824,413
Adult/Continuing	186,558	176,235
Other	142,862	-
Support services:		
Pupils	856,158	723,952
Instructional staff	747,202	949,529
Board of education	51,400	43,438
Administration	848,487	655,881
Fiscal	246,159	230,254
Operation & maintenance of plant	1,246,249	989,226
Pupil transportation	14,873	13,327
Central	114,093	114,758
Operation of non-instructional services	214,180	202,408
Extra-curricular activities	24,382	21,322
Interest on capital lease	<u>4,188</u>	<u>5,300</u>
Total expenses	<u>10,465,701</u>	<u>9,889,332</u>
 Decrease in Net Assets	 <u>\$ (3,670,633)</u>	 <u>\$ (3,662,359)</u>

Property taxes and grants and entitlement represent 77 percent of total District revenues. Program revenues for governmental activities are 12 percent of total revenues and are primarily represented by charges for tuition and fees and restricted intergovernmental revenues.

The major program expense for governmental activities is for instruction, which is 58 percent of all governmental expenses. Total District expenses in 2006 were \$576 thousand higher than 2005 expenses. During 2005, the District added four academic teachers, three career/technical teachers, three intervention specialists, one instructional aide, one network administrator, two supervisors and a secretary and eliminated one

**Tolles Career and Technical Center
Management's Discussion and Analysis, Continued
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

principal to meet the needs of increased enrollment and for new programs. New programs initiated in 2005 included, a fire fighter program, an auto services program and a broadcast video production program at a new high school in the Dublin City School District. These increases were partially offset by programs which were discontinued for the Hilliard City School District.

Governmental Activities

The table below indicates the total cost of services and the net cost of services for the governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlement.

Programs	Total Cost of Services		Net Cost of Service	
	2006	2005	2006	2005
Instruction	\$ 6,098,330	\$ 5,939,937	\$ 5,567,948	\$ 5,434,008
Support services:				
Pupil and instructional staff	1,603,360	1,673,481	1,566,178	1,641,850
Board of education, administration, fiscal and business	1,146,046	929,573	1,146,046	929,573
Operation & maintenance of plant	1,246,249	989,226	1,246,249	989,226
Pupil transportation	14,873	13,327	14,873	13,327
Central	114,093	114,758	111,093	111,758
Operation of non-instructional services	214,180	202,408	(49,481)	(13,518)
Extracurricular activities	24,382	21,322	24,382	21,322
Interest on capital lease	4,188	5,300	4,188	5,300
Total	<u>\$ 10,465,701</u>	<u>\$ 9,889,332</u>	<u>\$ 9,631,476</u>	<u>\$ 9,132,846</u>

Of the total revenues for governmental activities 42 percent comes from local taxes, while 34 percent comes from state entitlements.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,779,715 and expenditures of \$10,473,235 in 2006. The net change in fund balance for the year was most significant in the General Fund, where the fund balance decreased by \$3,695,096.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget as needed.

**Tolles Career and Technical Center
Management's Discussion and Analysis, Continued
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

Final budgeted expenditures in the amount of \$19,177,621 were \$9,673,788 above actual expenditures. The District generally over appropriates in case unexpected expenditures arise during the fiscal year. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$9,503,833, \$3,912,232 above revenues.

Capital Assets

At the end of fiscal 2006, the District had \$8,331,105 invested in land, buildings, equipment, and vehicles (net of accumulated depreciation); all in governmental activities.

Note 6 provides additional details regarding capital assets.

Current Issues

The District remains stable in a declining economy and uncertainty in State funding. The District covers a diverse area that includes suburban residential areas as well as farming communities in Franklin, Madison, Union, Delaware and Fayette Counties.

The District has maintained an excellent financial position over the last 30 years. In 1972, a 1.8 mill continuing levy was passed. Because of significant growth in the District over the years the millage has been reduced. The last reduction was from 1.1 mill to .5 mill effective January 1, 2003. It is not anticipated that the District will need any additional voted millage in the near future.

BASIC FINANCIAL STATEMENTS

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Tolles Career and Technical Center

Statement of Net Assets

June 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Equity in pooled cash & investments	\$ 10,694,159
Materials and supplies inventory	62,448
Accounts receivable	165,968
Due from other governments	53,179
Prepaid items	6,122
Property taxes receivable	3,030,158
Nondepreciable capital assets	150,000
Depreciable capital assets, net	<u>8,181,105</u>
TOTAL ASSETS	<u><u>\$ 22,343,139</u></u>
LIABILITIES	
Accounts payable	\$ 15,217
Accrued wages	809,859
Due to other governments	124,061
Unearned revenue	2,101,198
Long-term Liabilities:	
Due within one year	44,015
Due in more than one year	<u>449,840</u>
TOTAL LIABILITIES	<u>3,544,190</u>
NET ASSETS	
Invested in capital assets, net of related debt	8,297,387
Restricted for:	
Capital projects funds	552,461
Other purposes	9,185
Unrestricted	<u>9,939,916</u>
TOTAL NET ASSETS	<u><u>\$ 18,798,949</u></u>

The notes to the financial statements are an integral part of this statement.

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Tolles Career and Technical Center
Statement of Activities
For the Fiscal Year Ended June 30, 2006

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instructional services:				
Regular	\$ 1,267,036	-	-	(1,267,036)
Special	519,789	-	329,346	(190,443)
Vocational	3,982,085	143,810	27,639	(3,810,636)
Adult/Continuing	186,558	-	29,587	(156,971)
Other	142,862	-	-	(142,862)
Support services:				
Pupils	856,158	-	16,639	(839,519)
Instructional staff	747,202	-	20,543	(726,659)
Board of education	51,400	-	-	(51,400)
Administration	848,487	-	-	(848,487)
Fiscal	246,159	-	-	(246,159)
Operation & maintenance of plant	1,246,249	-	-	(1,246,249)
Pupil transportation	14,873	-	-	(14,873)
Central	114,093	-	3,000	(111,093)
Operation of Non-Instructional services	214,180	211,125	52,536	49,481
Extracurricular student activities	24,382	-	-	(24,382)
Interest on capital leases	4,188	-	-	(4,188)
Totals	\$ 10,465,701	354,935	479,290	(9,631,476)

General revenues:	
Property taxes levied for -	
General purposes	2,898,969
Grants and entitlements not restricted to specific programs	2,317,650
Investment earnings	552,822
Miscellaneous	191,402
Total general revenues	5,960,843
Change in Net Assets	(3,670,633)
Net Assets Beginning of Year, as restated	22,469,582
Net Assets End of Year	18,798,949

The notes to the financial statements are an integral part of this statement.

Tolles Career and Technical Center

Balance Sheet

Governmental Funds

June 30, 2006

	General	Other Governmental Funds	Total
ASSETS			
Equity and Pooled Cash and Cash Equivalents: \$	10,013,201	680,958	10,694,159
Materials and supplies inventory	58,261	4,187	62,448
Accounts receivable	160,218	5,750	165,968
Interfund receivable	68,000	-	68,000
Intergovernmental receivable	-	53,179	53,179
Prepaid items	6,122	-	6,122
Property taxes receivables	3,030,158	-	3,030,158
<i>TOTAL ASSETS</i>	\$ 13,335,960	744,074	14,080,034
LIABILITIES			
Accounts payable \$	12,885	2,332	15,217
Accrued wages	676,223	68,377	744,600
Intergovernmental payables	99,670	23,314	122,984
Interfund payable	-	68,000	68,000
Due to other funds	979	98	1,077
Unearned revenue	2,218,772	-	2,218,772
Compensated absences	65,259	-	65,259
<i>TOTAL LIABILITIES</i>	3,073,788	162,121	3,235,909
FUND BALANCES			
Reserved for encumbrances	179,552	5,846	185,398
Reserved for inventory	58,261	4,187	62,448
Reserved for future appropriations	811,386	-	811,386
Unreserved, reported in:			
General fund	9,212,973	-	9,212,973
Special Revenue funds	-	19,459	19,459
Capital Projects funds	-	552,461	552,461
<i>TOTAL FUND BALANCES</i>	10,262,172	581,953	10,844,125
<i>TOTAL LIABILITIES & FUND BALANCES</i>	\$ 13,335,960	744,074	14,080,034

The notes to the financial statements are an integral part of this statement.

Tolles Career and Technical Center
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006*

Total Governmental Fund Balances	\$ 10,844,125
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not functional resources and therefore are not reported in the funds.	8,331,105
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	117,574
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(460,137)
Capital lease obligations	(33,718)
Net Assets of Governmental Activities	<u>\$ 18,798,949</u>

The notes to the financial statements are an integral part of this statement.

Tolles Career and Technical Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Other Governmental Funds	Total
REVENUES:			
Taxes	\$ 2,883,616	-	2,883,616
Intergovernmental	2,317,650	479,290	2,796,940
Interest	552,490	332	552,822
Tuition and fees	25,832	117,978	143,810
Charges for services	-	211,125	211,125
Miscellaneous	149,463	41,939	191,402
TOTAL REVENUES	5,929,051	850,664	6,779,715
EXPENDITURES:			
Current:			
Instructional services:			
Regular	1,248,212	-	1,248,212
Special	245,106	282,319	527,425
Vocational	3,274,658	125,878	3,400,536
Adult/Continuing	-	186,087	186,087
Other instruction	142,862	-	142,862
Support services:			
Pupils	823,840	23,870	847,710
Instructional staff	717,498	-	717,498
Board of education	51,400	-	51,400
Administration	650,954	169,045	819,999
Fiscal	237,588	-	237,588
Operation & maintenance of plant	1,189,150	-	1,189,150
Pupil transportation	14,873	-	14,873
Central	113,167	3,000	116,167
Operation of Non-Instructional services	-	204,568	204,568
Extracurricular	23,862	-	23,862
Capital outlay	730,977	14,321	745,298
TOTAL EXPENDITURES	9,464,147	1,009,088	10,473,235
 <i>Excess (deficiency) of revenues over expenditures</i>	 (3,535,096)	 (158,424)	 (3,693,520)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	160,000	160,000
Transfers out	(160,000)	-	(160,000)
TOTAL OTHER FINANCING SOURCES (USES)	(160,000)	160,000	-
 <i>NET CHANGE IN FUND BALANCES</i>	 (3,695,096)	 1,576	 (3,693,520)
FUND BALANCES AT BEGINNING OF YEAR	13,957,268	580,377	14,537,645
FUND BALANCE AT END OF YEAR	\$ 10,262,172	581,953	10,844,125

The notes to the financial statements are an integral part of this statement.

Tolles Career and Technical Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Changes in Fund Balances - Total Governmental Funds	\$ (3,693,520)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(7,442)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	15,353
Repayment of lease payable is an expenditure in governmental fund, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.	11,204
Compensated absence expenses reported in the statement of activities do not required the use of current financial resources and therefore are not reported as expenditures in governmental funds.	3,772
Change in Net Assets of Governmental Activities	<u><u>\$ (3,670,633)</u></u>

The notes to the financial statements are an integral part of this statement.

Tolles Career and Technical Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
ASSETS	
Equity in pooled cash and cash equivalents	\$ <u>6,399</u>
TOTAL ASSETS	<u><u>6,399</u></u>
LIABILITIES	
Accounts Payable	1,164
Due to Others	<u>5,235</u>
TOTAL LIABILITIES	\$ <u><u>6,399</u></u>

The notes to the financial statements are an integral part of this statement.

**TOLLES CAREER AND TECHNICAL CENTER
MADISON COUNTY**

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

Note 1. Description of the School District and Reporting Entity

Reporting Entity

The Tolles Career and Technical Center (the Center) was organized in 1972 under Section 3311.18 of the Ohio Revised Code. The Center is a fiscally independent political subdivision of the State of Ohio. The Center is governed by a seven member Board of Education. Board of Education members are appointed from the membership of the following seven Boards of Education: Dublin City School District, Fairbanks Local School District, Hilliard City School District, Jefferson Local School District, Jonathan Alder Local School District, London City School District, and Madison-Plains Local School District. The Center had been supported by a 1.6 mill continuing operating levy passed in 1972 and by funds from the State of Ohio Joint Vocational School Foundation Program. At the request of the Center's Board of Education, the Madison County Commissioners reduced the Center's continuing operating mills to .5 mills effective January, 2003. The 1.6 mill support level could be reinstated by the county commissioners upon demonstration of need by the Center.

The Center provides job training leading to employment upon graduation from high school. The Center fosters cooperative relationships with business and industry, professional organizations, participating school districts, and other interested, concerned groups and organizations to consider, plan and implement education programs designed to meet the common needs and interests of students.

A reporting entity is composed of the stand-alone government, component units, and other organizations that are included to ensure the financial statements are not misleading. For reporting purposes, the Center consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, food service, continuing education and student related activities of the Center.

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

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool and with the Metropolitan Educational Council (MEC), a jointly governed organization. These organizations are presented in Notes 15 and 16 to the basic financial statements

Note 2. Summary of Significant Accounting Policies

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989,

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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Center's accounting policies are described below.

A. Basis of Presentation

The Center'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.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

During the year, the Center segregates transactions related to certain Center 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 Center at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Center 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 Center are reported in two categories: governmental and fiduciary.

Governmental Fund Types

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

General Fund - This 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 Center for any purpose provided it is expended or transferred according to general laws of Ohio.

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

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

Fiduciary Fund Types

Fiduciary fund reporting focuses on net assets and changes in net assets. The Center's fiduciary fund is an agency fund. An agency fund is purely custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Center's agency fund accounts for student activities and worker's compensation.

C. Measurement Focus/Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance year 2007 operations, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

Expenses/Expenditures

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

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

E. Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". During the fiscal year all investments were limited to certificates of deposit, repurchase agreements, the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities.

Nonparticipating investment contracts such as repurchase agreements and non-negotiable certificates of deposit are reported at cost. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006. For the Center, all investment earnings accrue to the General and Special Revenue Funds as authorized by board resolution.

Investments of the Center's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Center 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.

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

F. Inventories

Inventories are presented at cost which is determined on a first-in, first-out basis. Inventory is recorded as an expenditure/expense when used.

Inventories consist of donated and purchased food, and supplies held for resale, and materials and supplies for consumption.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items.

H. Capital Assets

The Center's only capital assets are general capital assets used in governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values on the date donated. The Center maintains capitalization at \$300. The Center does not have any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Building and Building Improvements	15 – 30 years
Furniture and Fixtures	5 – 20 years
Vehicles	5 – 15 years
Equipment	6 – 20 years

I. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as interfund receivables/payables. Interfund balances within governmental activities are eliminated on the government wide statement of net assets.

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits as well as those that are probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Center's termination policy. The Center records a liability for accumulated unused sick leave for all employees after ten years of service.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Capital leases are recognized as a liability on the fund financial statements when due.

L. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

M. Fund Balance Reserves and Designations

The Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balances are reserved for supplies inventory, encumbrances and future appropriations. The reserve for future appropriation represents the amount of the property taxes available for advance and recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The Center is prohibited by law from appropriating the advance, since it was not received, for the current fiscal year. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

N. Net Assets

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

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

O. Estimates

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

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Note 3. Cash and Investments

A. Cash

The investment and deposit of the Center's monies is governed by the provisions of the ORC. In accordance with these statutes, the Center is authorized to invest in United States and State of Ohio bonds, notes, and other obligations; bank certificates of deposit; banker acceptances; commercial paper notes rated prime and issued by United States corporations; repurchase agreements secured by United States obligations; and STAROhio. During fiscal year 2006, investments were limited to STAROhio, repurchase agreements, CDs, and federal agency securities. Earnings on investments are credited to the General Fund except earnings specifically related to the Capital Projects Fund, Food Service Fund, and the Agency Fund which is in compliance with ORC Section 3315.01. In fiscal 2006 total investment income of \$552,822 was recorded in the General Fund and Food Service Fund.

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

According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Center's name. During 2006, the Center and public depositories complied with the provisions of these statutes.

B. Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center.

At June 30, 2006, the carrying amount of all Center deposits was \$ 7,233,753. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2006, \$ 7,204,966 of the Center's bank balance of \$ 7,404,966 was exposed to custodial risk as discussed above, while \$200,000 was covered by Federal Deposit Insurance Corporation.

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

C. Investments

As of June 30, 2006, the Center had the following investments and maturities.

Investment type	Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
STAROhio	\$ 5,079	5,079	-	-	-
FHLMC DN	1,486,139	1,486,139	-	-	-
FHLB	997,390	-	-	997,390	-
FNMA	978,197	498,219	479,978	-	-
	<u>\$ 3,466,805</u>	<u>1,989,437</u>	<u>479,978</u>	<u>997,390</u>	<u>-</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center limits investment portfolio maturities to two years or less.

Credit Risk. The Center does not have a formal policy limiting credit risk. Standard & Poor's has assigned StarOhio an AAAM money market rating. The FHLMC, FHLB and FNMA investments were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Concentration of Credit Risk. The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the Center at June 30, 2006:

Investment type	Fair Value	% to total
STAROhio	\$ 5,079	0.15%
FHLMC	1,486,139	42.86%
FHLB	997,390	28.77%
FNMA	978,197	28.22%
	<u>\$ 3,466,805</u>	<u>100.00%</u>

Note 4. Property Tax

Property taxes are levied, assessed and collected on a calendar year basis, while the Center's fiscal year runs from July through June. They include amounts levied against all real, public utility, and tangible personal property located in the Center. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semiannually. If paid annually, payment is due January 20. If paid semi-annually, the first payment is usually due January 20, with the remainder payable June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible

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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

personal property used in business (except for public utilities) is currently assessed for taxation purposes at 18.75 percent of its true value. Amounts paid by multi-county taxpayers may be paid annually or semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year proceeding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100 percent of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Center receives property taxes from Madison, Franklin, Union, Delaware and Fayette Counties. Tax settlements are made each February and August for real property and each June and October for personal property taxes.

Accrued property taxes receivable includes the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of fiscal year end, and for which there was an enforceable legal claim. Although, total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations and is reflected as revenue at fiscal year end. The receivable is offset by a credit to unearned revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006 was \$811,386 in the General Fund. Accrued property taxes receivable also includes amounts for any late personal property tax settlements made by the Counties.

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

The full tax rate at the fiscal year ended June 30, 2006 for operations was \$.50 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2006 taxes were collected were as follows:

Real Property - Commercial/Industrial	\$	1,318,286,020
Real Property - Residential/Agricultural		4,465,083,520
Personal Property - General		509,554,494
Total Assessment Vaue	\$	<u>6,292,924,034</u>

Note 5. Receivables

Receivables at June 30, 2006 consisted of taxes, accounts (tuition and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of federal funds.

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

A summary of the principal items of Intergovernmental Receivables follows:

Governmental Activities	Amount
Other Governmental Funds:	
Adult Education	\$ 6,000
Carl D. Perkins Grant	27,667
Food Service	19,512
Total Governmental Activities	\$ 53,179

Note 6. Capital Assets

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

	Balance June 30, 2005	Additions	Disposals	Balance June 30, 2006
Capital Assets used in:				
Governmental Activities				
Nondepreciable capital assets-				
Land	\$ 150,000	-	-	150,000
Construction in progress	-	-	-	-
Total nondepreciable capital assets	150,000	-	-	150,000
Depreciable capital assets:				
Building and building improvements	11,601,203	-	-	11,601,203
Furniture and equipment	4,585,141	583,137	167,665	5,000,613
Vehicles	489,675	29,893	11,000	508,568
Total depreciable capital assets	16,676,019	613,030	178,665	17,110,384
Accumulated depreciation:				
Building and building improvements	5,688,032	266,206	-	5,954,238
Furniture and equipment	2,547,477	288,095	140,425	2,695,147
Vehicles	251,963	29,214	1,283	279,894
Total accumulated depreciation	8,487,472	583,515	141,708	8,929,279
Total depreciable capital assets, net	8,188,547	29,515	36,957	8,181,105
Total governmental activities capital assets, net	8,338,547	29,515	36,957	8,331,105

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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Depreciation expense was charged to governmental functions as follows:

Instructional:	
Regular	\$ 10,401
Special	3,854
Vocational	424,603
Adult/Continuing	416
Support services:	
Pupil	42,548
Instructional staff	39,543
Administration	13,419
Fiscal	1,407
Operation and maintenance of plant	43,366
Central	139
Other operation of non-instructional services	3,299
Extra curricular activities	520
Total depreciation	<u>\$ 583,515</u>

Note 9. Long-Term Obligations

Changes in the Center's long-term obligations during fiscal year 2006 were as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount due in One Year
<i>Governmental Activities</i>					
Compensated absences payable	\$ 463,909	35,365	39,137	460,137	\$ 31,577
Capital Leases Payable	<u>44,922</u>	-	<u>11,204</u>	<u>33,718</u>	<u>12,438</u>
Total Governmental Activities Long-term Obligations	<u>\$ 508,831</u>	<u>35,365</u>	<u>50,341</u>	<u>493,855</u>	<u>\$ 44,015</u>

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Note 10. Capital Leases

The Center has four lease agreements for copiers. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments made from governmental funds on the leases in 2006 and 2005 were \$11,204 and \$10,092, respectively.

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

Year	Governmental Activities
2007	\$ 15,392
2008	15,392
2009	7,702
Total	38,486
Less: Amount representing interest	(4,766)
Present Value of Net Minimum Lease Payments	33,720

Note 11. Interfund Assets/Liabilities

As of June 30, 2006, the General Fund had an interfund receivable in the amount of \$68,000. The Carl D. Perkins Grant and Buckeye Science Academy special revenue funds had interfund payables in the amounts \$62,000 and \$6,000, respectively, resulting from the provision of cash flow resources from the General Fund until the receipt of grant monies by the special revenue funds.

Note 12. Defined Benefit Pension Plans

A. School Employees Retirement System

The Center 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 43215-3476.

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 statutory maximum amounts, by the SERS Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$105,925, \$116,049 and \$97,057, respectively; 100 percent of the required contribution for each year.

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

B. State Teachers Retirement System

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The school district was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 Center's required pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$627,387, \$617,095 and \$602,044, respectively; 100 percent of the required contribution each year.

C. Social Security System

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

**TOLLES CAREER AND TECHNICAL CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Note 13. Postemployment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the school district, this amount equaled \$48,260 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$257,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. Employer contributions of approximately \$34,201 and a surcharge of \$20,024 were used to fund post-employment benefits for 2006.

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

**TOLLES CAREER AND TECHNICAL CENTER
MADISON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Note 14. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements, Board policies and State laws. Only administrative and twelve month school support personnel accumulate vacation based on the following factors:

<u>Years of Service</u>	<u>Vacation Days</u>
After 1 Year	10
5 or more Years	15
10 or more Years	20

All administrative personnel earn twenty days vacation annually.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for all employees is 290 days. Upon retirement, payment is made for 25 percent of the employee's balance based upon their years of service.

Note 15. Risk Management

A. General Risk

The Center 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 Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. In addition, the Center maintains a \$5,000,000 umbrella liability policy.

The Center maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The Center maintains replacement cost insurance on buildings and contents in the amount of \$250,000,000 (subject to scheduled limits). The Center maintains other property insurance for valuable papers, electronic data processing equipment, and mechanical, electrical and pressure equipment. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions of coverage from the prior years.

B. Workers' Compensation-Public Entity Risk Pool

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center 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.

**TOLLES CAREER AND TECHNICAL CENTER
MADISON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Insurance

The Center provides life insurance and accidental death and dismemberment insurance to its employees through the Metropolitan Educational Council insurance purchasing program. The Center has elected to provide employee medical/surgical benefits and dental through United HealthCare, a fully funded program.

Note 16. Jointly Governed Organizations

Metropolitan Educational Council - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Note 17. Contingencies

A. Grants

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

B. Litigation

There are currently no matters in litigation with the Center as defendant.

**TOLLES CAREER AND TECHNICAL CENTER
MADISON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS, (Continued)

Note 18. Statutory Reserves

The Center is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Total
Set-Aside Cash Balance as of July 1, 2005	\$ -	-	-
Current Year Set-Aside Requirement	79,616	79,616	159,232
Qualifying Disbursements	<u>(965,836)</u>	<u>(508,209)</u>	<u>(1,474,045)</u>
Total	<u>(886,220)</u>	<u>(428,593)</u>	<u>(1,314,813)</u>
Cash Balance Carried Forward to Fiscal Year 2006	<u>\$ -</u>	<u>-</u>	<u>-</u>

The Center had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero. These amounts may be used to reduce the set-aside requirement of future years. Negative amounts, however, are not presented as being carried forward to the next fiscal year.

Note 19. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 20. Subsequent Event

On October 19, 2006 the Board of Education passed a resolution requesting that the Madison County Budget Commission reinstate the effective millage of the Center to 1.6 mills. The Board of Education, in cooperation with the Madison County Budget Commission had previously agreed to a temporary reduction in the effective millage to .5 mills with the express understanding that said millage could be reinstated upon request by the Center. This reduced millage had been in effect since January 2003. On November 20, 2006, the Madison County Budget Commission agreed to reinstate the Center's millage to 1.3 mills effective January 1, 2007.

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REQUIRED SUPPLEMENTARY INFORMATION

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Tolles Career and Technical Center
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
REVENUES:				
Taxes	\$ 2,563,918	2,732,749	2,753,705	20,956
Intergovernmental	2,337,986	2,325,934	2,317,650	(8,284)
Interest	420,000	474,520	473,451	(1,069)
Tuition and fees	21,000	21,000	26,046	5,046
Miscellaneous	5,400	10,400	20,749	10,349
TOTAL REVENUES	5,348,304	5,564,603	5,591,601	26,998
EXPENDITURES:				
Current:				
Instructional services:				
Regular	1,490,400	1,380,700	1,296,315	84,385
Special	259,790	259,790	223,952	35,838
Vocational	4,118,425	4,118,425	3,700,855	417,570
Other	37,000	150,200	113,280	36,920
Support services:				
Pupils	8,646,528	8,811,428	847,874	7,963,554
Instructional staff	966,867	887,467	748,566	138,901
Board of education	144,665	145,665	51,482	94,183
Administration	724,965	756,466	682,257	74,209
Fiscal	286,185	286,185	243,152	43,033
Operation & maintenance of plant	1,609,775	1,614,775	1,419,562	195,213
Pupil transportation	20,000	20,000	14,873	5,127
Central	297,700	297,700	132,297	165,403
Extracurricular	27,830	27,830	24,192	3,638
Capital outlay	420,990	420,990	5,176	415,814
TOTAL EXPENDITURES	19,051,120	19,177,621	9,503,833	9,673,788
 <i>Excess (deficiency) of revenues over expenditures</i>	 (13,702,816)	 (13,613,018)	 (3,912,232)	 (9,700,786)
OTHER FINANCING SOURCES (USES):				
Transfers out	(175,000)	(175,000)	(160,000)	15,000
Advances in	54,000	54,000	43,854	(10,146)
Advances out	(75,000)	(75,000)	(68,000)	7,000
Other	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(196,000)	(196,000)	(184,146)	11,854
 NET CHANGE IN FUND BALANCES	 (13,898,816)	 (13,809,018)	 (4,096,378)	 (9,712,640)
 Prior year encumbrances appropriated	 276,085	 276,085	 276,085	 -
 FUND BALANCES AT BEGINNING OF YEAR	 <u>13,533,234</u>	 <u>13,533,234</u>	 <u>13,533,234</u>	 <u>-</u>
FUND BALANCE AT END OF YEAR	\$ <u>(89,497)</u>	<u>301</u>	<u>9,712,941</u>	<u>(9,712,640)</u>

See notes to required supplementary information.

TOLLES CAREER AND TECHNICAL CENTER

Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

NOTE A - BUDGETARY DATA

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 that the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level for all funds. Any budgetary modifications at this level may only be made by the Board of Education.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for the funds 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 appropriations passed by the Board during the fiscal year.

NOTE B - RECONCILING BUDGET BASIS AND GAAP

The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual column presented on the Budgetary Comparison Schedule – General Fund is prepared in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- B. Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- C. Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance (GAAP basis); and
- D. Investments are recorded at cost (budget basis) as opposed to fair value (GAAP basis).

A reconciliation of the General Fund results of operations at the end of the year on the GAAP basis to the budget basis follows:

Deficiency of revenues and other financing sources under
expenditures and other financing uses (GAAP Basis) \$ (3,695,096)

Adjustments, net

Revenue accruals	(159,668)
Expenditure accruals	(54,406)
Encumbrances	(187,208)
Excess of revenues and other financing sources over expenditures and other financing uses (Budget Basis)	<u>\$ (4,096,378)</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Tolles Career & Technical Center
7877 US Highway 42 South
Plain City, Ohio 43064

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tolles Career & Technical Center, Madison County, Ohio (the Center) as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
December 1, 2006



Mary Taylor, CPA
Auditor of State

**TOLLES CAREER AND TECHNICAL CENTER
MADISON 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
FEBRUARY 13, 2007**