

Vinton County Local School District

Vinton County, Ohio

Basic Financial Statements

Single Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006



BALESTRA, HARR & SCHERER, CPAs Inc.
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Mary Taylor, CPA
Auditor of State

Board of Education
Vinton County Local School District
307 West High Street
McArthur, Ohio 45651

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 7, 2007

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**Vinton County Local School District
Vinton County, Ohio**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Vinton County Local School District
307 West High Street
McArthur, Ohio 45651

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 the 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 District, as of June 30, 2006, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

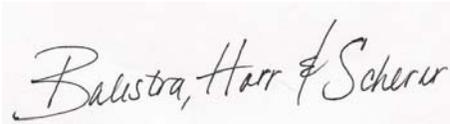
In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other 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 considered in assessing the results of our audit.

Members of the Board
Vinton County Local School District
Independent Auditor's Report
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The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statements No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recovery*, GASB Statement No. 46 *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47 *Accounting For Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.
March 29, 2007

VINTON COUNTY LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006 (Unaudited)

The discussion and analysis of the Vinton County Local School District's financial performance provides an overview and analysis 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Vinton County Local School District exceeded its liabilities at June 30, 2006 by \$70,829,550. Of this amount, \$22,539,479 represents the total net assets that are invested in capital assets, net of related debt and \$40,894,192 that are restricted for specific purposes. The remaining \$7,395,879 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$1,572,433, which represents a 2.27 percent increase from 2005.
- ▶ General revenues accounted for \$19,439,781 or 71.09 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,905,888 or 28.91 percent of total revenues of \$27,345,669.
- ▶ The District had \$25,773,236 in expenses related to governmental activities; only \$7,905,888 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$19,439,781 and net assets from the prior year were used to provide for the remainder of these programs.
- ▶ The District recognizes three major governmental funds: the General, the Bond Retirement and the School Construction Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$21,199,371 in revenues and other financing sources, and \$19,006,645 in expenditures and other financing uses in fiscal year 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Vinton County Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. 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. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and 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. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's three major governmental funds are the General, the Bond Retirement, and the School Construction Funds.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of two categories: governmental and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

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 governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-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 facilitate this comparison between governmental funds and governmental activities.

Fiduciary Fund

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

Table 1
Net Assets

| | <u>Governmental Activities</u> | |
|---|--------------------------------|----------------------------|
| | 2006 | 2005 |
| <u>Assets:</u> | | |
| Current and Other Assets | \$56,402,730 | \$62,426,678 |
| Capital Assets, Net | 30,370,046 | 21,925,450 |
| <i>Total Assets</i> | <u>86,772,776</u> | <u>84,352,128</u> |
| <u>Liabilities:</u> | | |
| Long-Term Liabilities | 8,672,019 | 8,637,441 |
| Other Liabilities | 7,271,207 | 6,457,570 |
| <i>Total Liabilities</i> | <u>15,943,226</u> | <u>15,095,011</u> |
| <u>Net Assets:</u> | | |
| Invested in Capital Assets, Net of Related Debt | 22,539,479 | 14,072,342 |
| Restricted | 40,894,192 | 47,617,715 |
| Unrestricted | 7,395,879 | 7,567,060 |
| <i>Total Net Assets</i> | <u><u>\$70,829,550</u></u> | <u><u>\$69,257,117</u></u> |

Current and other assets decreased \$6,023,948 from fiscal year 2005 due primarily to decreases in the receivable from the Ohio School Facilities Commission.

Capital assets increased \$8,444,596 as the result of construction in progress.

Current (other) liabilities increased by \$813,637 due to contracts payable related to the construction in progress.

Long-term liabilities increased by \$34,578 due to the issuance of refunding bonds.

The District's largest portion of net assets is restricted net assets. This accounts for 57.74 percent of net assets. The restricted net assets are subject to external restrictions on how they may be used.

The balance of \$22,539,479 or 31.82 percent is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

The District's smallest portion of net assets is unrestricted. This accounts for 10.44 percent of net assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

Table 2 shows the changes in net assets for fiscal year 2006 and provides a comparison to fiscal year 2005.

**Table 2
Changes in Net Assets**

| | Governmental Activities | |
|--|-------------------------|-------------------|
| | 2006 | 2005 |
| <i>Revenues:</i> | | |
| <i>Program Revenue:</i> | | |
| Charges for Services and Sales | \$618,533 | \$960,933 |
| Operating Grants and Contributions | 7,260,859 | 4,851,570 |
| Capital Grants and Contributions | 26,496 | 1,652,966 |
| <i>General Revenue:</i> | | |
| Property Taxes | 4,162,549 | 2,259,096 |
| Income Taxes | 32 | 3,984 |
| Unrestricted Grants and Entitlements | 12,893,422 | 15,694,989 |
| Grants and Entitlements Restricted for Classroom Facilities | 0 | 38,600,536 |
| Unrestricted Tuition and Fees | 347,632 | 0 |
| Payments in Lieu of Taxes | 0 | 1,260,372 |
| Investment Earnings | 937,811 | 304,026 |
| Miscellaneous | 1,098,335 | 19,962 |
| <i>Total Revenues</i> | <u>27,345,669</u> | <u>65,608,434</u> |
| <i>Expenses:</i> | | |
| <i>Program Expenses:</i> | | |
| <i>Instruction:</i> | | |
| Regular | 9,804,936 | 11,635,474 |
| Special | 2,611,922 | 2,845,274 |
| Vocational | 149,487 | 166,194 |
| Other | 1,072,583 | 862,140 |

(Continued)

VINTON COUNTY LOCAL SCHOOL DISTRICT

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

Table 2
Changes in Net Assets
(Continued)

| | <u>2006</u> | <u>2005</u> |
|---|----------------------------|----------------------------|
| <i>Support Services:</i> | | |
| Pupils | 1,823,353 | 1,480,004 |
| Instructional Staff | 1,863,165 | 1,695,385 |
| Board of Education | 497,622 | 274,070 |
| Administration | 1,966,703 | 1,656,302 |
| Fiscal | 313,465 | 398,042 |
| Operation and Maintenance of Plant | 1,892,038 | 1,629,161 |
| Pupil Transportation | 1,913,014 | 1,710,343 |
| Central | 1,923 | 23,737 |
| <i>Operation of Non-Instructional Services:</i> | | |
| Food Service | 1,022,226 | 902,307 |
| Other | 52,069 | 43,033 |
| Extracurricular Activities | 273,019 | 315,529 |
| Interest and Fiscal Charges | <u>515,711</u> | <u>217,529</u> |
| <i>Total Expenses</i> | <u>25,773,236</u> | <u>25,854,524</u> |
| <i>Change in Net Assets</i> | 1,572,433 | 39,753,910 |
| Net Assets – Beginning of Year | <u>69,257,117</u> | <u>29,503,207</u> |
| Net Assets – End of Year | <u><u>\$70,829,550</u></u> | <u><u>\$69,257,117</u></u> |

The most significant program expenses for the District are Regular Instruction, Special Instruction, Administration, Operation and Maintenance of Plant, Pupil Transportation, Instructional Staff, and Pupils. These programs account for 84.88 percent of the total governmental activities. Regular Instruction accounts for 38.04 percent of the total and represents costs associated with providing general educational services. Special Instruction accounts for 10.13 percent of the total and represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration accounts for 7.63 percent of the total and represents costs associated with the overall administrative responsibility for each building and the District as a whole. Operation and Maintenance of Plant accounts for 7.34 percent of the total and represents costs associated with operating and maintaining the District's facilities. Pupil Transportation accounts for 7.42 percent of the total and represents costs associated with providing transportation services for students between home and school and to school activities. Instructional Staff accounts for 7.23 percent of the total and represents costs associated with

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

assisting instructional staff with providing learning experiences for students. Pupils, which represent 7.09 percent of the total cost, represent costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process.

The majority of the funding for the most significant programs indicated above is from grants and entitlements not restricted for specific programs and operating grants and contributions. Operating grants and contributions, capital grants and contributions, and grants and entitlements not restricted for specific programs account for 73.80 percent of total revenues.

As noted previously, the net assets for the governmental activities increased \$1,572,433 or 2.27 percent. This is a change from last year when net assets increased \$39,753,910 or 134.74 percent. Total revenues decreased \$38,262,765 or 58.32 percent over last year, mainly due to the classroom facilities grant monies recognized as revenue last year. Expenses decreased \$81,288 or 0.31 percent over last year.

The District had program revenue increases of \$440,419, and decreases in general revenues of \$38,703,184. The significant decrease in general revenues is due to the recognition of the OSFC receivable revenue last year. The increase in program revenue is due to a \$2,409,289 increase in operating grants and contributions, which was partially offset by a \$342,400 decrease in Charges for Services and Sales and \$1,626,470 decrease in capital grants and contributions. Property taxes increased \$1,903,453 or 84.26 percent due to the available advances at year end. Also, grants and entitlements not restricted to specific programs decreased \$2,801,567 or 17.85 percent due to decreases in the school foundation receipts and homestead/rollback receipts.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 15.22 percent and intergovernmental revenue made up 73.80 percent of the total revenue for the governmental activities in fiscal year 2006.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District voters approved a bond retirement tax levy for 3.82 mills in November 1997 as part of a \$5,010,000 bond issue for the construction of a new high school. Of the 3.82 mills, 3.32 mills are used for the retirement of the bonds and the remaining .5 mills are used for repairs and maintenance of the new facilities. In fiscal year 2006, this levy generated \$859,289 in tax revenue for debt service payments.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2006, the District received \$14,790,964 through the State's foundation program, which represents 54.09 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 53.02 percent of governmental activities program expenses. Support services expenses make up 39.95 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Net Cost of Governmental Activities**

| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2006 | 2006 | 2005 | 2005 |
| <i>Program Expenses:</i> | | | | |
| Instruction | \$13,638,928 | \$9,597,625 | \$15,509,082 | \$11,676,456 |
| Support Services | 10,271,283 | 7,445,136 | 8,867,044 | 6,391,127 |
| Operation of Non-Instructional Services | 1,074,295 | 110,000 | 945,340 | (32,270) |
| Extracurricular Activities | 273,019 | 198,876 | 315,529 | 136,213 |
| Interest and Fiscal Charges | 515,711 | 515,711 | 217,529 | 217,529 |
| Total Expenses | <u><u>\$25,773,236</u></u> | <u><u>\$17,867,348</u></u> | <u><u>\$25,854,524</u></u> | <u><u>\$18,389,055</u></u> |

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$52,532,721 and expenditures and other financing uses of \$41,089,867.

Total governmental funds experienced an increase of \$11,442,854 in fund balance. The increase in fund balance for the year was most significant in the School Construction Fund, which posted a \$8,619,761 increase. An increase of \$347,762 in the Bond Retirement Fund made up the remaining increase in the fund balance of the total governmental funds. An increase in the other governmental funds in the amount of \$282,605 was posted. The General Fund had an increase in fund balance of \$2,192,726 which resulted in an ending fund balance of \$10,628,105.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

The District should remain stable in fiscal years 2007 through 2009. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2006, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cash flow plan for the General Fund. Actual cash flow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis estimate of revenue was \$20,945,738 representing a \$2,144,177 increase from the original budget estimate of \$18,800,961. The final budget reflected a 11.41 percent increase from the original budgeted amount. Most of this difference was due to conservative estimates of intergovernmental revenue. For the General Fund, the final budget basis estimate of expenditures was \$20,504,615 representing an increase of \$12,601,424 from the original budget estimate of \$7,903,191. The final budget reflected a 159.45 percent increase from the original budgeted amount. Most of the difference is due to conservative estimates of appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$41.33 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$10.96 million. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

VINTON COUNTY LOCAL SCHOOL DISTRICT

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

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2006

| | <u>Governmental Activities</u> | |
|---------------------------------------|--------------------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| <i>Nondepreciable Capital Assets:</i> | | |
| Land | \$977,320 | \$977,320 |
| Construction in Progress | 9,282,417 | 0 |
| <i>Depreciable Capital Assets:</i> | | |
| Land | 3,274,330 | 3,247,931 |
| Buildings and Improvements | 22,536,827 | 22,481,517 |
| Furniture, Fixtures and Equipment | 2,726,832 | 2,561,473 |
| Vehicles | 2,529,340 | 2,521,954 |
| <i>Total Capital Assets</i> | <u>41,327,066</u> | <u>31,790,195</u> |
| <i>Less Accumulated Depreciation:</i> | | |
| Land Improvements | 946,094 | 793,289 |
| Buildings and Improvements | 6,218,631 | 5,536,634 |
| Furniture, Fixtures and Equipment | 1,760,706 | 1,696,896 |
| Vehicles | 2,031,589 | 1,837,926 |
| <i>Total Accumulated Depreciation</i> | <u>10,957,020</u> | <u>9,864,745</u> |
| Capital Assets, Net | <u>\$30,370,046</u> | <u>\$21,925,450</u> |

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2006, the District had \$7,591,138 in general obligation bonds and capital leases outstanding with \$361,372 due within one year. Table 5 summarizes bonds and capital leases outstanding for fiscal year 2006 compared to fiscal year 2005.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
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(Unaudited)*

Table 5
Outstanding Debt, Governmental Activities at Year End

| Purpose | 2006 | 2005 |
|--------------------------|-------------|-------------|
| General Obligation Bonds | \$7,350,000 | \$3,985,000 |
| Bond Anticipation Notes | 0 | 3,700,000 |
| Capital Leases | 241,138 | 168,108 |
| Total | \$7,591,138 | \$7,853,108 |

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Vinton County Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Fifty-four percent of the District's funding is received through the State's foundation program, which along with other various grants and entitlements makes up over 70 percent of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning and the passage of a building levy have permitted the District to provide a quality education for our students along with renovated facilities for the future.

In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2006 and the new court may be called upon to address the issue. On August 14, 2004 the Ohio Coalition for Adequacy and Equity filed petition for a Writ of Certiorari with the United States Supreme Court. On October 20, 2004 the United States Supreme Court declined to review the State's continued operation of a school funding plan declared unconstitutional by the Ohio Supreme Court on four separate occasions. At this time there can be no reasonable estimate of these discussions or their impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, these decisions will have on its future State funding and on its financial statements.

The State Legislature has also made several significant changes impacting local taxes:

In 2004 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

VINTON COUNTY LOCAL SCHOOL DISTRICT

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

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies will be replaced through 2006; after this a phase out formula would begin.

The Vinton County Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes 69 percent of the District's real estate valuation.

Commercial growth saw an increase in assessed valuation of public utility personal and tangible personal property in calendar 2006. This was mainly due to increased valuation of the small businesses located throughout the District.

The District entered into an agreement with the Ohio School Facilities Commission on November 15, 2004 to build 3 new elementary schools, one new middle school, renovate/add on to Vinton County High School, and abate and demolish Allensville, Hamden, McArthur, Swan, Wilton, and Zaleski elementary schools and Vinton County Jr. High School.

The District's share required under the agreement is \$4,308,000 and the State share is \$40,253,502 with a total budget of \$44,561,102. In December 2005, the District issued \$5,715,000 in School Facilities Construction and Improvement and Advance Refunding Bonds. A portion of the issue was to retire the remaining amount on the bonds issued in 1998, with the remaining amount to retire the Bond Anticipation Notes issued to cover the District's share of the construction costs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Tami Downard, Treasurer of Vinton County Local School Board of Education, 307 West High Street, McArthur, Ohio 45651.

VINTON COUNTY LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$30,742,341 |
| Property Taxes Receivable | 3,448,994 |
| Intergovernmental Receivable | 21,319,954 |
| Accrued Interest Receivable | 47,068 |
| Prepaid Items | 29,754 |
| Inventory Held for Resale | 8,801 |
| <u>Restricted Assets:</u> | |
| Cash and Cash Equivalents | 701,164 |
| Unamortized Bond Issuance Costs | 104,654 |
| Nondepreciable Capital Assets | 10,259,737 |
| Depreciable Capital Assets, Net | <u>20,110,309</u> |
| <i>Total Assets</i> | <u><u>86,772,776</u></u> |
| <u>Liabilities:</u> | |
| Accounts Payable | 243,088 |
| Contracts Payable | 2,460,417 |
| Accrued Wages and Benefits | 1,980,054 |
| Intergovernmental Payable | 677,798 |
| Accrued Interest Payable | 31,565 |
| Matured Compensated Absences Payable | 60,502 |
| Deferred Revenue | 1,817,783 |
| <u>Long-Term Liabilities:</u> | |
| Due within One Year | 440,437 |
| Due in More Than One Year | <u>8,231,582</u> |
| <i>Total Liabilities</i> | <u><u>15,943,226</u></u> |
| <u>Net Assets:</u> | |
| Invested in Capital Assets, Net of Related Debt | 22,539,479 |
| <u>Restricted for:</u> | |
| Debt Service | 1,344,942 |
| Capital Projects | 38,053,686 |
| Other Purposes | 1,495,564 |
| Unrestricted | <u>7,395,879</u> |
| <i>Total Net Assets</i> | <u><u>\$70,829,550</u></u> |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2006

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | |
|---|--------------------------------------|--|--|--|----------------------------|
| | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| <u>Expenses</u> | | | | | |
| <u>Governmental Activities:</u> | | | | | |
| <i>Instruction:</i> | | | | | |
| Regular | \$9,804,936 | \$153,495 | \$1,750,882 | \$0 | (\$7,900,559) |
| Special | 2,611,922 | 0 | 1,868,742 | 0 | (743,180) |
| Vocational | 149,487 | 0 | 60,530 | 0 | (88,957) |
| Other | 1,072,583 | 0 | 207,654 | 0 | (864,929) |
| <i>Support Services:</i> | | | | | |
| Pupils | 1,823,353 | 0 | 800,690 | 0 | (1,022,663) |
| Instructional Staff | 1,863,165 | 0 | 600,174 | 26,496 | (1,236,495) |
| Board of Education | 497,622 | 0 | 0 | 0 | (497,622) |
| Administration | 1,966,703 | 98,363 | 143,170 | 0 | (1,725,170) |
| Fiscal | 313,465 | 0 | 8,958 | 0 | (304,507) |
| Operation and Maintenance of Plant | 1,892,038 | 0 | 6,803 | 0 | (1,885,235) |
| Pupil Transportation | 1,913,014 | 0 | 1,140,385 | 0 | (772,629) |
| Central | 1,923 | 0 | 1,108 | 0 | (815) |
| <i>Operation of Non-Instructional Services:</i> | | | | | |
| Food Services | 1,022,226 | 295,259 | 669,036 | 0 | (57,931) |
| Other | 52,069 | 0 | 0 | 0 | (52,069) |
| Extracurricular Activities | 273,019 | 71,416 | 2,727 | 0 | (198,876) |
| Interest and Fiscal Charges | 515,711 | 0 | 0 | 0 | (515,711) |
| <u>Total Governmental Activities</u> | <u>\$25,773,236</u> | <u>\$618,533</u> | <u>\$7,260,859</u> | <u>\$26,496</u> | <u>(17,867,348)</u> |
| <u>General Revenues:</u> | | | | | |
| <i>Property Taxes Levied for:</i> | | | | | |
| General Purposes | | | | | 3,248,694 |
| Capital Outlay | | | | | 54,566 |
| Debt Service | | | | | 859,289 |
| Income Taxes | | | | | 32 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 12,893,422 |
| Unrestricted Tuition and Fees | | | | | 347,632 |
| Investment Earnings | | | | | 937,811 |
| Miscellaneous | | | | | 1,098,335 |
| <u>Total General Revenues</u> | | | | | <u>19,439,781</u> |
| Change in Net Assets | | | | | 1,572,433 |
| <i>Net Assets at Beginning of Year</i> | | | | | <u>69,257,117</u> |
| <i>Net Assets at End of Year</i> | | | | | <u><u>\$70,829,550</u></u> |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2006*

| | General | Bond Retirement | School Construction | All Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|------------------------|------------------------------------|--------------------------------|
| <u>Assets:</u> | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$10,867,023 | \$1,031,163 | \$17,586,677 | \$1,257,478 | \$30,742,341 |
| Property Taxes Receivable | 2,741,971 | 693,952 | 0 | 13,071 | 3,448,994 |
| Intergovernmental Receivable | 0 | 0 | 20,696,632 | 623,322 | 21,319,954 |
| Accrued Interest Receivable | 47,068 | 0 | 0 | 0 | 47,068 |
| Interfund Receivable | 159,666 | 0 | 0 | 0 | 159,666 |
| Prepaid Items | 29,754 | 0 | 0 | 0 | 29,754 |
| Inventory Held for Resale | 0 | 0 | 0 | 8,801 | 8,801 |
| <u>Restricted Assets:</u> | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 701,164 | 0 | 0 | 0 | 701,164 |
| Total Assets | \$14,546,646 | \$1,725,115 | \$38,283,309 | \$1,902,672 | \$56,457,742 |
| <u>Liabilities and Fund Balances:</u> | | | | | |
| <u>Liabilities:</u> | | | | | |
| Accounts Payable | \$2,514 | \$0 | \$240,574 | \$0 | \$243,088 |
| Contracts Payable | \$0 | \$0 | \$2,460,417 | \$0 | \$2,460,417 |
| Accrued Wages and Benefits | 1,579,341 | 0 | 0 | 400,713 | 1,980,054 |
| Intergovernmental Payable | 567,732 | 0 | 0 | 110,066 | 677,798 |
| Interfund Payable | 0 | 0 | 0 | 159,666 | 159,666 |
| Deferred Revenue | 1,708,452 | 430,137 | 20,696,632 | 153,873 | 22,989,094 |
| Matured Compensated Absences Payable | 60,502 | 0 | 0 | 0 | 60,502 |
| Total Liabilities | 3,918,541 | 430,137 | 23,397,623 | 824,318 | 28,570,619 |
| <u>Fund Balances:</u> | | | | | |
| Reserved for Encumbrances | 1,226,131 | 0 | 27,120,331 | 39,218 | 28,385,680 |
| Reserved for Property Taxes | 1,033,519 | 264,832 | 0 | 25,003 | 1,323,354 |
| Reserved for Set-Asides | 585,279 | 0 | 0 | 0 | 585,279 |
| Reserved for Bus Purchases | 115,885 | 0 | 0 | 0 | 115,885 |
| <u>Unreserved, Undesignated, Reported in:</u> | | | | | |
| General Fund | 7,667,291 | 0 | 0 | 0 | 7,667,291 |
| Special Revenue Funds | 0 | 0 | 0 | 826,333 | 826,333 |
| Debt Service Fund | 0 | 1,030,146 | 0 | 0 | 1,030,146 |
| Capital Projects Funds | 0 | 0 | (12,234,645) | 187,800 | (12,046,845) |
| Total Fund Balances | 10,628,105 | 1,294,978 | 14,885,686 | 1,078,354 | 27,887,123 |
| Total Liabilities and Fund Balances | \$14,546,646 | \$1,725,115 | \$38,283,309 | \$1,902,672 | \$56,457,742 |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

| | | |
|---|-------------------|----------------------------|
| Total Governmental Funds Balances | | \$27,887,123 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 30,370,046 |
| Some of the District's receivables will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of: | | |
| Property taxes | 331,479 | |
| Intergovernmental | <u>20,839,832</u> | |
| Total receivables that are deferred in the funds | | 21,171,311 |
| Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds. | | 104,654 |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of: | | |
| General obligation bonds | (7,350,000) | |
| Premium on bonds | (328,924) | |
| Accrued interest on bonds | (31,565) | |
| Compensated absences | (751,957) | |
| Capital leases | <u>(241,138)</u> | |
| Total liabilities that are not reported in the funds | | <u>(8,703,584)</u> |
| <i>Net Assets of Governmental Activities</i> | | <u><u>\$70,829,550</u></u> |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

| | General | Bond Retirement | School Construction | All Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|------------------------|------------------------------------|--------------------------------|
| <u>Revenues:</u> | | | | | |
| Property Taxes | \$3,460,539 | \$895,521 | \$0 | \$59,605 | \$4,415,665 |
| Income Taxes | 32 | 0 | 0 | 0 | 32 |
| Intergovernmental | 15,285,332 | 75,100 | 17,903,904 | 5,023,249 | 38,287,585 |
| Interest | 571,173 | 4,694 | 360,623 | 1,321 | 937,811 |
| Tuition and Fees | 347,632 | 0 | 0 | 943 | 348,575 |
| Extracurricular Activities | 0 | 0 | 0 | 169,779 | 169,779 |
| Customer Services | 153,495 | 0 | 0 | 295,259 | 448,754 |
| Gifts and Donations | 0 | 0 | 0 | 9,068 | 9,068 |
| Miscellaneous | 710,725 | 0 | 0 | 377,757 | 1,088,482 |
| Total Revenues | 20,528,928 | 975,315 | 18,264,527 | 5,936,981 | 45,705,751 |
| <u>Expenditures:</u> | | | | | |
| <i>Instruction:</i> | | | | | |
| Regular | 7,402,573 | 0 | 0 | 1,407,879 | 8,810,452 |
| Special | 1,800,637 | 0 | 0 | 887,500 | 2,688,137 |
| Vocational | 160,383 | 0 | 0 | 0 | 160,383 |
| Other | 908,530 | 0 | 0 | 164,053 | 1,072,583 |
| <i>Support Services:</i> | | | | | |
| Pupil | 985,978 | 0 | 0 | 885,721 | 1,871,699 |
| Instructional Staff | 990,420 | 0 | 0 | 873,508 | 1,863,928 |
| Board of Education | 448,576 | 32,592 | 0 | 1,457 | 482,625 |
| Administration | 1,642,022 | 0 | 0 | 293,510 | 1,935,532 |
| Fiscal | 312,136 | 0 | 0 | 17,345 | 329,481 |
| Operation and Maintenance of Plant | 1,928,445 | 0 | 0 | 5,994 | 1,934,439 |
| Pupil Transportation | 1,743,039 | 0 | 0 | 22,039 | 1,765,078 |
| Central | 0 | 0 | 0 | 1,316 | 1,316 |
| Operation of Non-Instructional Services | 52,069 | 0 | 0 | 1,014,410 | 1,066,479 |
| Extracurricular Activities | 146,256 | 0 | 0 | 79,235 | 225,491 |
| Capital Outlay | 244,049 | 0 | 9,282,417 | 409 | 9,526,875 |
| <i>Debt Service:</i> | | | | | |
| Principal Retirement | 112,608 | 4,035,000 | 0 | 0 | 4,147,608 |
| Interest and Fiscal Charges | 16,321 | 484,231 | 0 | 0 | 500,552 |
| Bond Issuance Costs | 0 | 104,654 | 0 | 0 | 104,654 |
| Total Expenditures | 18,894,042 | 4,656,477 | 9,282,417 | 5,654,376 | 38,487,312 |
| Excess of Revenues Over (Under) Expenditures | 1,634,886 | (3,681,162) | 8,982,110 | 282,605 | 7,218,439 |
| <u>Other Financing Sources (Uses):</u> | | | | | |
| Proceeds from Sale of Assets | 9,853 | 0 | 0 | 0 | 9,853 |
| Inception of Capital Lease | 185,638 | 0 | 0 | 0 | 185,638 |
| Advance Refunding Bonds Issued | 0 | 5,715,000 | 0 | 0 | 5,715,000 |
| Premium on Refunding Bonds Issued | 0 | 328,924 | 0 | 0 | 328,924 |
| Repayment to Refunding Bond Escrow Account | 0 | (2,015,000) | 0 | 0 | (2,015,000) |
| Transfers In | 474,952 | 0 | 112,603 | 0 | 587,555 |
| Transfers Out | (112,603) | 0 | (474,952) | 0 | (587,555) |
| Total Other Financing Sources (Uses) | 557,840 | 4,028,924 | (362,349) | 0 | 4,224,415 |
| Net Change in Fund Balances | 2,192,726 | 347,762 | 8,619,761 | 282,605 | 11,442,854 |
| Fund Balances at Beginning of Year | 8,435,379 | 947,216 | 6,265,925 | 795,749 | 16,444,269 |
| Fund Balances at End of Year | \$10,628,105 | \$1,294,978 | \$14,885,686 | \$1,078,354 | \$27,887,123 |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

| | |
|--|---------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$11,442,854 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | |
| 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 capital outlay exceeded depreciation in the current period. | 8,444,596 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: | |
| Property taxes | (253,886) |
| Intergovernmental | <u>(18,116,048)</u> |
| Total revenues not reported in the funds | (18,369,934) |
| Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 6,162,608 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (15,159) |
| Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued as deferred charges. | 104,654 |
| Debt proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from general obligation bonds, including a premium of \$328,924. | (6,043,924) |
| Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities: | |
| Inception of capital leases | (185,638) |
| Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: | |
| Compensated absences | <u>32,376</u> |
| <i>Change in Net Assets of Governmental Activities</i> | <u><u>\$1,572,433</u></u> |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2006*

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|------------------|-------------|--------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$2,760,756 | \$2,855,433 | \$2,802,512 | (\$52,921) |
| Income Tax | 3,034 | 984 | 982 | (2) |
| Intergovernmental | 13,782,511 | 15,288,913 | 15,285,332 | (3,581) |
| Interest | 261,893 | 511,893 | 530,215 | 18,322 |
| Tuition and Fees | 310,888 | 348,395 | 347,632 | (763) |
| Rent | 1,175 | 175 | 100 | (75) |
| Gifts and Donations | 55 | 0 | 0 | 0 |
| Customer Service and Sales | 155,454 | 545,454 | 153,495 | (391,959) |
| Miscellaneous | 1,272,025 | 697,600 | 710,625 | 13,025 |
| <i>Total Revenues</i> | 18,547,791 | 20,248,847 | 19,830,893 | (417,954) |
| <u>Expenditures:</u> | | | | |
| <i>Current:</i> | | | | |
| <i>Instruction:</i> | | | | |
| Regular | 2,311,716 | 8,338,099 | 7,987,556 | 350,543 |
| Special | 462,114 | 1,969,285 | 1,899,571 | 69,714 |
| Vocational | 44,678 | 169,224 | 166,577 | 2,647 |
| Other | 219,972 | 912,636 | 910,190 | 2,446 |
| <i>Support Services:</i> | | | | |
| Pupils | 374,318 | 1,245,075 | 1,075,501 | 169,574 |
| Instructional Staff | 357,136 | 1,187,153 | 1,027,065 | 160,088 |
| Board of Education | 481,352 | 653,741 | 447,611 | 206,130 |
| Administration | 442,155 | 1,696,517 | 1,609,843 | 86,674 |
| Fiscal | 90,286 | 352,030 | 339,580 | 12,450 |
| Operation and Maintenance of Plant | 626,271 | 2,095,205 | 1,987,202 | 108,003 |
| Pupil Transportation | 500,264 | 1,997,934 | 1,958,020 | 39,914 |
| Central | 599,570 | 1,005,106 | 0 | 1,005,106 |
| Operation of Non-Instructional Services | 15,419 | 62,879 | 61,928 | 951 |
| Extracurricular Activities | 32,945 | 163,845 | 145,502 | 18,343 |
| Capital Outlay | 1,344,995 | 1,535,791 | 1,142,199 | 393,592 |
| <i>Total Expenditures</i> | 7,903,191 | 23,384,520 | 20,758,345 | 2,626,175 |
| <i>Excess of Revenues Over (Under) Expenditures</i> | 10,644,600 | (3,135,673) | (927,452) | 2,208,221 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Proceeds from Sale of Assets | 6,352 | 9,352 | 9,853 | 501 |
| Transfer In | 582,896 | 474,952 | 474,952 | 0 |
| Advances In | 193,315 | 93,315 | 90,793 | (2,522) |
| Transfer Out | (297,802) | (113,059) | (112,603) | 456 |
| Advance Out | (18,750) | (144,150) | (144,282) | (132) |
| <i>Total Other Financing Sources (Uses)</i> | 466,011 | 320,410 | 318,713 | (1,697) |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | 11,110,611 | (2,815,263) | (608,739) | 2,206,524 |
| <i>Fund Balance at Beginning of Year</i> | 10,610,633 | 10,610,633 | 10,610,633 | 0 |
| <i>Prior Year Encumbrances Appropriated</i> | 338,092 | 338,092 | 338,092 | 0 |
| <i>Fund Balance at End of Year</i> | \$22,059,336 | \$8,133,462 | \$10,339,986 | \$2,206,524 |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Fiduciary Fund

June 30, 2006

| | <u>Agency</u> |
|--|-----------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$51,767</u> |
| <u>Liabilities:</u> | |
| Due to Students | <u>\$51,767</u> |

See accompanying notes to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Vinton County Local School District (the "District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District provides educational services as authorized by State statute and/or federal guidelines. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Board controls the District's seven (7) instructional support facilities staffed by 124 non-certificated, 219 teaching, personnel and 13 administrative employees providing education to approximately 2,510 students.

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

Reporting Entity

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

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

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

- Parent Teacher Organization
- Booster Club

The District is associated with four organizations, three of which are defined as jointly governed organizations, and one is a group purchasing pool. These organizations are the South Central Ohio Computer Association, the Gallia-Jackson-Vinton Joint Vocational School District, the Gallia-Vinton Educational Service Center, the Southeastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

The District's basic financial statement consists 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

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

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. 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 District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the District fall within two categories: governmental and fiduciary.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Governmental Funds

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

The following is the District's only major governmental funds:

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

School Construction Fund - This fund is used to account for monies received and expended in connection with the building and equipping of classroom facilities.

Bond Retirement Fund - This fund receives property taxes for payment of general obligation bonds and notes payable.

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a 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 the fiscal year-end: property taxes available for advance, grants and interest.

Deferred Revenue

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

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

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During the fiscal year 2006, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio) and Federal Home Loan Mortgage Corporation Bonds. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investments the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the District during fiscal year 2006 amounted to \$937,811, which includes \$571,173 credited to the General Fund and \$366,638 assigned to other District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Prepaid Items

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required to be reserved for set-asides and school bus purchases. See Note 16 for additional information regarding set-asides.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 20 - 30 years |
| Buildings and Improvements | 25 - 50 years |
| Furniture and Equipment | 6 - 15 years |
| Vehicles | 5 - 10 years |

J. Interfund Balances

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

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as 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 District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

L. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants whose use is restricted by grant agreements as well as legal set-asides detailed at Note 16.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's restricted net assets of \$40,894,192 none are restricted by enabling legislation.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for set-asides represents money required to be set-aside by statute for textbooks and instructional materials and capital acquisition are explained in more detail in Note 16.

O. Interfund Transactions

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2006, the District reported no extraordinary or special items.

Q. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

R. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

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

NOTE 3 - NEW GASB PRONOUNCEMENT

For fiscal year 2006, the District implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of GASB Statement No. 42, 46 and 47 had some effect on the disclosure requirements, however, there was no effect on the prior period fund balances of the District.

NOTE 4 - ACCOUNTABILITY & COMPLIANCE

The following funds had deficit fund balances as of June 30, 2006:

Nonmajor Special Revenue Funds:

| | |
|------------------------------|-----------|
| Food Service | \$187,204 |
| Public School Preschool | 37,521 |
| DPIA | 2 |
| Ohio Reads | 37,448 |
| Alternative School | 23,938 |
| Miscellaneous State Grants | 23,265 |
| Title VI-B | 119,960 |
| Title I | 230,101 |
| Chapter II | 4,089 |
| Drug Free Grant | 9,780 |
| Preschool Handicap Grant | 14,375 |
| Miscellaneous Federal Grants | 294,887 |

Nonmajor Capital Project Fund:

| | |
|---------------------------|--------|
| Emergency Building Repair | 15,085 |
|---------------------------|--------|

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 - ACCOUNTABILITY & COMPLIANCE - (Continued)

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

Contrary to Ohio Law, the District did not amend its certificate of estimated resources as required. The District plans to monitor budgetary activity to ensure compliance in the future.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budget basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budget basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

| Net Change in Fund Balance | |
|----------------------------|-------------|
| GAAP Basis | \$2,192,726 |
| <i>Adjustments:</i> | |
| Revenue Accruals | (698,035) |
| Expenditure Accruals | (635,816) |
| Encumbrances | (1,228,487) |
| Other Sources (Uses) | (239,127) |
| Budget Basis | (\$608,739) |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - CASH, DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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 accounts including passbook accounts.

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 Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public funds 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 five 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 District's name. During fiscal year 2006, the District complied with the provisions of these statutes.

Interim monies may be deposited or invested in the following securities:

- (1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- (2) Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government 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 fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
- (4) Bonds and other obligations of the State of Ohio;
- (5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasurer's investment pool (STAROhio);

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - CASH, DEPOSITS AND INVESTMENTS -(Continued)

- (7) Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
- (8) Under Limited circumstances, 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 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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District'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 District.

At June 30, 2006, the carrying amount of all District deposits was \$3,681,930. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2006, \$200,000 of the District's bank balance of \$4,528,435 was covered by Federal Deposit Insurance. The remaining \$4,328,435 was collateralized with securities held by the District or its agent in the District's name.

Investments: As of June 30, 2006, the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity</u> <u>6 Months or Less</u> |
|--|---------------------|--|
| STAROhio | \$26,345,498 | \$26,345,498 |
| Federal Home Loan Mortgage Corp. Bonds | 1,467,844 | 1,467,844 |
| Totals | <u>\$27,813,342</u> | <u>\$27,813,342</u> |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - CASH, DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by keeping the portfolio sufficiently liquid to enable the school to meet all operating requirements.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio and Federal Securities as described in Ohio Revised Code Section 135.143A(2). Investments in STAR Ohio were rated “AAAm” by Standard & Poor’s. The Federal Home Loan Mortgage Corp. bonds were rated “AAA” by Standard and Poor’s.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy allows investments in eligible securities as described in the Ohio Revised Code. The District has invested 5 percent of its investments in Federal Home Loan Mortgage Corporation bonds and 95 percent of its investments in STAROhio.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk.

All of the District’s investments are either insured and registered in the name of the District or at least registered in the name of the District.

The classification of cash and cash equivalent on the combined balance sheet is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---------------------------------------|--------------|
| GASB Statement No. 9 | \$31,495,272 | \$0 |
| <i>Investments:</i> | | |
| Federal Home Loan Mortgage Corp. Bonds | (1,467,844) | 1,467,844 |
| STAROhio | (26,345,498) | 26,345,498 |
| GASB Statement No. 3 | \$3,681,930 | \$27,813,342 |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Vinton, Gallia, Jackson and Hocking Counties. The County Auditors periodically advance to the District their portion of the taxes collected. Second-half real property tax payments collected by each county by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2006. Although total property tax collections for the fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006 is reported as fund balance - reserved for property taxes.

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

| | 2005 First- Half Collections | | 2006 First- Half Collections | |
|---|---------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$120,845,670 | 74.49% | \$120,048,270 | 68.71% |
| Public Utility Personal | 28,049,150 | 17.29% | 41,342,149 | 23.66% |
| Tangible Personal Property | 13,336,519 | 8.22% | 13,332,259 | 7.63% |
| Total Assessed Value | <u>\$162,231,339</u> | <u>100.00%</u> | <u>\$174,722,678</u> | <u>100.00%</u> |
| Tax Rate per \$1,000 of Assessed Valuation | \$22.52 | | \$22.52 | |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (rent and student fees) and intergovernmental grants. 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 year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

| | |
|--|--------------|
| <i>Major Fund:</i> | |
| School Construction | \$20,696,632 |
| <i>Nonmajor Special Revenue Funds:</i> | |
| Public Preschool | 28,557 |
| School Net | 494 |
| Ohio Reads | 1,268 |
| Alternative Challenge Grant | 5,611 |
| Poverty Aid | 157,357 |
| Title VI-B | 187,210 |
| Title I | 132,898 |
| Safe and Drug Free School Program | 187 |
| Title VI-R | 36,742 |
| Preschool Handicapped Grant | 2,318 |
| Miscellaneous Federal Grants | 70,680 |
| Total Nonmajor Special Revenue Funds | 623,322 |
| Total Intergovernmental Receivables | \$21,319,954 |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the District contracted with various commercial carriers for property and fleet insurance, liability insurance, inland marine coverage, and public official bonds. Coverages provided are as follows:

| | |
|---|--------------|
| Building and Contents - replacement cost (\$1,000 deductible) | \$50,992,750 |
| Inland Marine Coverage (\$250 deductible) | 2,500,000 |
| Musical Instruments (\$1,000 deductible) | 70,938 |
| Automobile Liability (\$1,000 deductible): | |
| Per Person | 1,000,000 |
| Per Accident | 2,000,000 |
| Uninsured Motorists (\$1,000 deductible): | |
| Per Person | 1,000,000 |
| Per Accident | 1,000,000 |
| General Liability: | |
| Per Occurrence | 1,000,000 |
| Total Per Year | 3,000,000 |
| Public Official Bonds: | |
| Treasurer | 100,000 |
| Superintendent/Board President (each) | 50,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years. The District has made significant changes in coverage during the past fiscal year. The District increased its coverage on the building and its contents.

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - CAPITAL ASSETS

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

| Asset Category | Balance at July 1, 2005 | Transfers/ Additions | Transfers/ Deletions | Balance at June 30, 2006 |
|---------------------------------------|----------------------------|-------------------------|-------------------------|-----------------------------|
| <i>Nondepreciable Capital Assets:</i> | | | | |
| Land | \$977,320 | \$0 | \$0 | \$977,320 |
| Construction in Progress | 0 | 9,282,417 | 0 | 9,282,417 |
| Total Nondepreciable Capital Assets | 977,320 | 9,282,417 | 0 | 10,259,737 |
| <i>Depreciable Capital Assets:</i> | | | | |
| Land Improvements | 3,247,931 | 26,399 | 0 | 3,274,330 |
| Buildings and Improvements | 22,481,517 | 55,310 | 0 | 22,536,827 |
| Furniture, Fixtures and Equipment | 2,561,473 | 165,359 | 0 | 2,726,832 |
| Vehicles | 2,521,954 | 7,386 | 0 | 2,529,340 |
| Total Depreciable Capital Assets | 30,812,875 | 254,454 | 0 | 31,067,329 |
| Total Capital Assets | 31,790,195 | 9,536,871 | 0 | 41,327,066 |
| <i>Accumulated Depreciation:</i> | | | | |
| Land Improvements | (793,289) | (152,805) | 0 | (946,094) |
| Buildings and Improvements | (5,536,634) | (681,997) | 0 | (6,218,631) |
| Furniture, Fixtures and Equipment | (1,696,896) | (63,810) | 0 | (1,760,706) |
| Vehicles | (1,837,926) | (193,663) | 0 | (2,031,589) |
| Total Accumulated Depreciation | (9,864,745) | (1,092,275) | 0 | (10,957,020) |
| Total Net Capital Assets | \$21,925,450 | \$8,444,596 | \$0 | \$30,370,046 |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

| | |
|---|-------------|
| <i>Instruction:</i> | |
| Regular | \$733,988 |
| Special | 18,273 |
| <i>Support Services:</i> | |
| Pupils | 17,211 |
| Instructional Staff | 14,645 |
| Board of Education | 16,782 |
| Administration | 12,815 |
| Fiscal | 1,459 |
| Operation and Maintenance | 21,147 |
| Pupil Transportation | 195,513 |
| Central | 607 |
| <i>Operation of Non-Instructional Services:</i> | |
| Food Services | 12,307 |
| Extracurricular Activities | 47,528 |
| Total Depreciation Expense | \$1,092,275 |

At June 30, 2006, net capital assets include \$244,128 of equipment under capitalized leases.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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 State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The 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.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the 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 the annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent 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 District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$409,504, \$361,104, and \$200,955, respectively; 49.26 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$207,769 representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the financial statements.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

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.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations for fiscal year 2006. For fiscal year 2005, the portion used to fund pension obligations was 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,273,069, \$1,239,007, and \$1,241,816, respectively; 85.36 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$186,392 representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the financial statements.

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, none of the seven members of the Board of Education have elected Social Security. If elected, the Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$97,928 during fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 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 has been established at \$35,800. 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 at June 30, 2005 (the latest year available), were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants currently receiving health care benefits is approximately 58,123. For the District, the amount to fund health care benefits, including the surcharge, equaled \$183,038 during the 2006 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent and Treasurer. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for 25 percent of the employee's accumulated sick leave up to a maximum of 51 days for certified and administrative employees and 65 days for non-certificated employees.

Additionally, certified employees with 30 years but less than 31 years of service are eligible for a \$40,000 severance bonus. Certified employees with 31 years but less than 32 years of service are eligible for a \$20,000 severance bonus while those with 32 years but less than 33 years of service are eligible for a \$15,000 severance bonus. Any certified employees who complete 33 years of service are no longer eligible for any severance bonus.

Health, Prescription, Dental and Life Insurance

The District provides health and prescription benefits to its employees through a fully funded policy with Medical Mutual. Dental and life insurance benefits are provided through a policy with Coresource.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the District during the 2006 fiscal year were as follows:

| | Issue Date | Interest Rate | Principal Outstanding at July 1, 2005 | Additions | Deletions | Principal Outstanding at June 30, 2006 | Amount Due in One Year |
|--|------------|---------------|---------------------------------------|--------------------|--------------------|--|------------------------|
| Governmental Activities: | | | | | | | |
| General Obligation Bonds | 6/15/98 | 5.01% | \$3,985,000 | \$0 | \$2,310,000 | \$1,675,000 | \$175,000 |
| Refunding Bonds: | 7/6/05 | 3.00 - 5.00% | 0 | 3,600,000 | 40,000 | 3,560,000 | 75,000 |
| Serial Bonds | | | | | | | |
| Term Bonds | | | 0 | 1,085,000 | 0 | 1,085,000 | 0 |
| Term Bonds | | | 0 | 1,030,000 | 0 | 1,030,000 | 0 |
| Bond Anticipation Note | 12/22/04 | 3.00% | 3,700,000 | 0 | 3,700,000 | 0 | 0 |
| Premium on Bonds | N/A | N/A | 0 | 328,924 | 0 | 328,924 | 0 |
| Capital Leases Payable | N/A | N/A | 168,108 | 185,638 | 112,608 | 241,138 | 111,372 |
| Compensated Absences | N/A | N/A | 784,333 | 751,957 | 784,333 | 751,957 | 79,065 |
| Total Governmental Activities Long-Term Liabilities | | | \$8,637,441 | \$6,981,519 | \$6,946,941 | \$8,672,019 | \$440,437 |

General obligation bonds were issued in the amount of \$5,010,000 in July 1998, as a result of the District being approved for \$11,041,812 in school facilities funding through the State Department of Education for the construction of a high school building. The District issued the general obligation bonds to provide a partial cash match to the school facilities funding. As a requirement of the school facilities funding program, the District passed a 3.82 mill levy in November 1997. Of the 3.82 mill levy, 3.32 mills is used for the retirement of the bonds that were issued and are in effect for twenty-three years. The remaining .5 mill is used for repairs and maintenance of the facility. As a part of this funding process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the District's adjusted valuation per pupil increases above the state-wide median adjusted valuation during the twenty-three year period, the District may become responsible for repayment of a portion of the State's contribution. The general obligation bonds are retired through the Bond Retirement Fund using tax revenues. The final payment on these bonds will be made on December 1, 2020.

On December 22, 2004, the District issued a \$3,700,000 bond anticipation note to renovate school facilities. The bond anticipation note was paid from the Classroom Facilities Fund from proceeds of the new bond issuance. The final payment on the note was made in July 2005.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

2005 Refunding Bonds - In July 2005, the District issued \$5,715,000 of voted general obligation bonds for the advance refunding of \$2,015,000 in the 1998 series bonds and the repayment of a \$3,700,000 bond anticipation note. The \$328,924 premium on the issuance of the refunding bonds is netted against this new debt and will be amortized over the life of this new debt, which has a remaining life of 27 years. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$335,768 and a reduction of \$110,498 in future debt service payments. \$3,600,000 was issued as serial bonds with interest rates ranging from 3.0% to 5.0%. \$1,085,000 was issued as term bonds with an interest rate of 5.00%. \$1,030,000 was issued as term bonds with an interest rate of 5.00%. The bonds were issued for a twenty-seven year period, with final maturity December 1, 2032. The refunding bonds will be retired from the Bond Retirement Debt Service Fund.

The Term Bonds maturing on December 1, 2027 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the fiscal years and respective principal amounts as follows:

| Fiscal Year | Principal Amount to be Redeemed |
|----------------|------------------------------------|
| 2022 | \$135,000 |
| 2023 | 140,000 |
| 2024 | 145,000 |
| 2025 | 155,000 |
| 2026 | 160,000 |
| 2027 | 170,000 |

The remaining principal amount of such Bonds (\$180,000) will be paid at stated maturity on December 1, 2027.

The Term Bonds maturing on December 1, 2032 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Fiscal Year | Principal Amount to be Redeemed |
|----------------|------------------------------------|
| 2029 | \$185,000 |
| 2030 | 195,000 |
| 2031 | 205,000 |
| 2032 | 215,000 |

The remaining principal amount of such Bonds (\$230,000) will be paid at stated maturity on December 1, 2032.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The Bonds maturing on or after December 1, 2015 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any date on or after June 1, 2015, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The serial bonds are not subject to a mandatory sinking fund or optional redemption prior to stated maturity.

Principal and interest requirements to retire the Refunding Bonds outstanding at June 30, 2006, are as follows:

| Fiscal Year Ending June 30, | Serial Bonds | Term Bonds | Term Bonds | Interest | Total |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2007 | \$75,000 | \$0 | \$0 | \$265,162 | \$340,162 |
| 2008 | 75,000 | 0 | 0 | 262,913 | 337,913 |
| 2009 | 80,000 | 0 | 0 | 260,662 | 340,662 |
| 2010 | 80,000 | 0 | 0 | 258,263 | 338,263 |
| 2011 | 85,000 | 0 | 0 | 255,662 | 340,662 |
| 2012-2016 | 1,005,000 | 0 | 0 | 1,218,150 | 2,223,150 |
| 2017-2021 | 2,160,000 | 0 | 0 | 832,038 | 2,992,038 |
| 2022-2026 | 0 | 735,000 | 0 | 458,500 | 1,193,500 |
| 2027-2031 | 0 | 350,000 | 585,000 | 255,750 | 1,190,750 |
| 2032-2033 | 0 | 0 | 445,000 | 33,750 | 478,750 |
| Totals | <u>\$3,560,000</u> | <u>\$1,085,000</u> | <u>\$1,030,000</u> | <u>\$4,100,850</u> | <u>\$9,775,850</u> |

Capital leases are paid from the General Fund. Compensated absences are paid from the fund from which the person is paid.

The District's voted legal debt margin was \$6,235,041 with an unvoted debt margin of \$174,723 at June 30, 2006.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The annual requirements to retire the general obligation bonds outstanding at June 30, 2006 are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|--------------------|------------------|--------------------|
| 2007 | \$175,000 | \$86,707 | \$261,707 |
| 2008 | 185,000 | 78,920 | 263,920 |
| 2009 | 190,000 | 70,595 | 260,595 |
| 2010 | 200,000 | 60,430 | 260,430 |
| 2011 | 215,000 | 49,730 | 264,730 |
| 2012-2014 | 710,000 | 77,918 | 787,918 |
| Total | <u>\$1,675,000</u> | <u>\$424,300</u> | <u>\$2,099,300</u> |

Principal and interest requirements to retire the capital leases at June 30, 2006 are as follows:

| Year Ending June 30 | Capital Leases |
|------------------------|-------------------|
| 2007 | \$130,317 |
| 2008 | 52,743 |
| 2009 | 47,881 |
| 2010 | 47,881 |
| 2011 | 23,941 |
| Total Debt Payments | 302,763 |
| Less: Interest | 61,625 |
| Total Principal | <u>\$241,138</u> |

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 15 - INTERFUND ACTIVITY

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

| Fund | Interfund Receivables | Interfund Payables |
|--|--------------------------|-----------------------|
| <i>General Fund</i> | \$159,666 | \$0 |
| <i>Nonmajor Special Revenue Funds:</i> | | |
| Ohio Reads | 0 | 30,414 |
| Miscellaneous State Grants | 0 | 7,511 |
| Title VI-B | 0 | 15,685 |
| Title I | 0 | 52,243 |
| Chapter II | 0 | 4,088 |
| Drug Free School | 0 | 9,966 |
| Preschool Handicapped | 0 | 6,467 |
| Miscellaneous Federal Grants | 0 | 18,207 |
| Total Nonmajor Special Revenue Funds | 0 | 144,581 |
| <i>Nonmajor Capital Project Fund:</i> | | |
| Emergency Building Repair Grant | 0 | 15,085 |
| Total | \$159,666 | \$159,666 |

All the interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

During fiscal year ended June 30, 2006, the District's interfund transfers were as follows:

| Fund | Transfers To | Transfers From |
|--------------------------|-----------------|-------------------|
| General Fund | \$474,952 | \$112,603 |
| School Construction Fund | 112,603 | 474,952 |
| Total | \$587,555 | \$587,555 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year 2006, the District made a transfer from the Classroom Facilities Fund of \$474,952 to the General Fund to subsidize construction costs paid from the General Fund.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, Senate Bill 345 eliminated the statutory requirement for a budget reserve; however, any remaining amount of the budget reserve funded with workers' compensation refunds or rebates may only be used to offset a budget deficit or certain other expenditures as directed by the Board of Education. For the District, there is no budget reserve amount remaining.

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

| | Textbook | Capital Acquisition | Total |
|---|-----------|------------------------|-------------|
| Set-Aside Reserve Balance as of June 30, 2005 | \$644,131 | \$0 | \$644,131 |
| Current Year Set-Aside Requirement | 292,865 | 292,865 | 585,730 |
| Qualifying Disbursements | (351,717) | (6,114,571) | (6,466,288) |
| Totals | 585,279 | (5,821,706) | (5,236,427) |
| Set-Aside Reserve Balance as of June 30, 2006 | \$585,279 | \$0 | |
| Total Restricted Assets | | | \$585,279 |

Actual cash balances in excess of set-aside requirements for both textbooks and capital improvements may be used to offset set-aside requirements of future years. The Board of Education has decided to carry forward the capital acquisition set-aside amount to reduce the set-aside requirements in future fiscal years.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association

The District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county elected by majority vote of all charter member school districts within each county, two treasurers elected by majority vote of all charter member school districts, and one representative from the fiscal agent. The District paid SCOCA \$32,537 for services provided during the year. Financial information for SCOCA can be obtained from their fiscal agent, Pike County Joint Vocational School District, P.O. Box 577, 175 Beaver Creek, Piketon, Ohio 45661.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Gallia - Vinton Educational Service Center

The Gallia - Vinton Educational Service Center is a jointly governed organization providing educational services to its two participating school districts. The Educational Service Center is governed by a board of education comprised of eight members appointed by the participating schools. The board controls the financial activity of the Educational Service Center and reports to the Ohio Department of Education and the Auditor of State. The continued existence of the Educational Service Center is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2006, the District made no contributions to the Educational Service Center. To obtain financial information, write to the Gallia - Vinton Educational Service Center, P.O. Box 178, Rio Grande, Ohio 45674.

Gallia-Jackson-Vinton Joint Vocational School District

The Gallia-Jackson-Vinton Joint Vocational School is a jointly governed organization providing vocational services to its six participating school districts. The Joint Vocational School is governed by a board of education comprised of nine members appointed by the participating schools. The board controls the financial activity of the Joint Vocational School and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Joint Vocational School is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2006, the District made no contributions to the Joint Vocational School. To obtain financial information, write to the Gallia-Jackson-Vinton Joint Vocational School, P.O. Box 157, Rio Grande, Ohio 45674.

Southeastern Ohio Special Education Regional Resource Center

The Southeastern Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Superintendent of the District is on the SERRC Board and the District also has a local representative that serves as an alternate for the SERRC Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 18 - GROUP PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Plan

The District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Worker's Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay a enrollment fee to the Plan to cover the costs of administering the program.

NOTE 19 - SCHOOL FUNDING

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 plan 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 District 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 - CONTINGENCIES

Grants

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

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 21 - CONTRACT COMMITMENTS

At June 30, 2006, the District had contractual commitments for completion of construction of the new schools as follows:

| <u>Contractor</u> | <u>Balance at 6/30/06</u> |
|-------------------------|-----------------------------------|
| Microman Inc. | \$794,062 |
| Advance Technical Group | 384,982 |
| Wesam Construction | 933,353 |
| Kinsale Corp | 786,283 |
| Claypool Electric | 278,723 |
| Lang Masonry | 398,714 |
| George Igel | 82,950 |
| Pezzo Construction | 56,930 |
| H & A Mechanical | 50,194 |
| A.J Stockmeister | 36,844 |
| Fanning, Howey | 31,238 |
| Total | <u><u>\$3,834,273</u></u> |

Vinton County Local School District
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|----------------------------------|---------------------------|---------------------|----------------------|---------------------|---------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| National School Breakfast Program | 05PU | 10.553 | \$ 149,867 | \$ - | \$ 149,867 | \$ - |
| National School Lunch Program | LLP4 | 10.555 | 444,201 | - | 444,201 | - |
| Total Nutrition Cluster | | | 594,068 | - | 594,068 | - |
| Food Distribution Program | NA | 10.550 | - | 47,950 | - | 47,950 |
| Team Nutrition Grants (B) | NA | 10.574 | 960 | - | 960 | - |
| Total United States Department of Agriculture- Nutrition Cluster | | | 595,028 | 47,950 | 595,028 | 47,950 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education- Grants to States | 6B-SF | 84.027 | 679,537 | - | 701,670 | - |
| Special Education- Preschool | PGS1 | 84.173 | 21,783 | - | 28,250 | - |
| Total Special Education Cluster | | | 701,320 | - | 729,920 | - |
| Title 1 | C1S1 | 84.010 | 838,477 | - | 890,721 | - |
| Safe and Drug Free Schools | DRS1 | 84.186 | 11,972 | - | 21,938 | - |
| Twenty-First Century Community Learning Centers | T1S1 | 84.287 | 476,617 | - | 475,693 | - |
| Innovative Education Program Strategy | C2S1 | 84.298 | 12,105 | - | 16,193 | - |
| Education Technology State Grants | TJS1 | 84.318 | 13,721 | - | 13,952 | - |
| School Renovation, IDEA and Technology | ATS3 | 84.352A | - | - | 14,696 | - |
| Reading First State Grant | RSS1 | 84.357 | 476,318 | - | 494,286 | - |
| Rural Education (REAP) | RUS1 | 84.358 | - | - | 482 | - |
| Improving Teacher Quality State Grants | TRS1 | 84.367 | 187,001 | - | 177,090 | - |
| Total United States Department of Education | | | 2,717,531 | - | 2,834,971 | - |
| UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | | | |
| State Children's Insurance Program | NA | 93.767 | 2,848 | - | 2,848 | - |
| Medical Assistance Program | NA | 93.778 | 37,068 | - | 37,068 | - |
| Total United States Department of Health and Human Services | | | 39,916 | - | 39,916 | - |
| Total Federal Financial Assistance | | | <u>\$ 3,352,475</u> | <u>\$ 47,950</u> | <u>\$ 3,469,915</u> | <u>\$ 47,950</u> |

NA = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

VINTON COUNTY LOCAL SCHOOL DISTRICT
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -FOOD DISTRIBUTIONS

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

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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*

Members of the Board
Vinton County Local School District
307 West High Street
McArthur, Ohio 45651

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Vinton County Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 29, 2007, wherein we noted the District implemented GASB Statements No. 42, 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2006-001.

Members of the Board

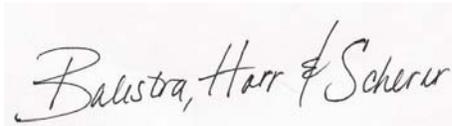
Vinton County Local School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Page 2

We noted certain matters that we have reported to management in a separate letter dated March 29, 2007.

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.
March 29, 2007

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board
Vinton County Local School District
307 West High Street
McArthur, Ohio 45651

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Members of the Board

Vinton County Local School District

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

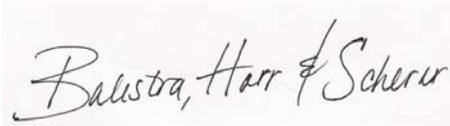
Page 2

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer CPAs, Inc.
March 29, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
OMB CIRCULAR A-133 SECTION .505

VINTON COUNTY LOCAL SCHOOL DISTRICT
VINTON COUNTY
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|--|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under section .510? | No |
| (d)(1)(vii) | Major Programs (list): | CFDA #84.010, Title I CFDA #10.553 and 10.555, Nutrition Cluster |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

VINTON COUNTY LOCAL SCHOOL DISTRICT
VINTON COUNTY
JUNE 30, 2006

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

Finding Number 2006-001

Material Citation – Appropriations in Excess of Available Resources

The Ohio Revised Code Section 5705.36 requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. The Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

For the Construction Fund, the District appropriated more than its available resources (defined as actual receipts plus unencumbered beginning balances). The excess amount appropriated was material to the financial statements.

Client Response:

The District did not submit a response.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

| | |
|----------------|------|
| Finding Number | None |
|----------------|------|



Mary Taylor, CPA
Auditor of State

VINTON LOCAL SCHOOL DISTRICT

VINTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 19, 2007