

**CANAL WINCHESTER LOCAL
SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
*BASIC FINANCIAL STATEMENTS
(AUDITED)***

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2005*

JOYCE BOYER, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Canal Winchester Local School District
290 Washington Street
Canal Winchester, Ohio 43110

We have reviewed the *Independent Auditor's Report* of the Canal Winchester Local School District, Franklin County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 Canal Winchester Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 19, 2006

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CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Westerville, Ohio 43082

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Independent Auditor’s Report

Board of Education
Canal Winchester Local School District
290 Washington Street
Canal Winchester, OH 43110

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Canal Winchester Local School District, Franklin County (the “District”) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Canal Winchester Local School District’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Canal Winchester Local School District, Franklin County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. In addition, the District has presented a restatement for fund reclassification, capital assets and capital appreciation bonds, which is described in more detail in Note 3.

Board of Education
Canal Winchester Local School District

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005, on our consideration of the Canal Winchester Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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 receipts and expenditures of federal awards 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 of the District. Such information 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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
October 28, 2005

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

The discussion and analysis of Canal Winchester Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$2,808,556. Net assets of governmental activities increased \$2,854,057, which represents a 24.01% increase from 2004. Net assets of business-type activities decreased \$45,501 or 22.13% from 2004.
- General revenues accounted for \$26,606,399 in revenue or 92.72% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,089,147 or 7.28% of total revenues of \$28,695,546.
- The District had \$25,841,489 in expenses related to governmental activities; \$2,089,147 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$26,606,399 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and building fund. The general fund had \$24,044,124 in revenues and other financing sources and \$21,854,325 in expenditures and other financing uses. The fund balance of the general fund increased from \$2,102,384 to \$4,292,183.
- The debt service fund had \$17,752,119 in revenues and other financing sources and \$14,231,126 in expenditures and other financing uses. The fund balance of the debt service fund increased from \$1,064,827 to \$4,585,820.
- The building fund had \$35,528,466 in revenues and other financing sources and \$3,421,836 in expenditures. The fund balance of the building fund increased from \$2,285 to \$32,108,915.
- Net assets for the District's enterprise fund decreased \$45,501 or 22.13%. The food service fund net assets decreased from \$205,635 to \$160,134 on expenses of \$789,019 versus revenues (both operating and non-operating) of \$743,518.

Using this Financial Report

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

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all non-fiduciary assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's food service program is reported as business activities.

The District's statement of net assets and statement of activities can be found on pages 16-18 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10 and the analysis of the District's business-type activities enterprise funds begins on page 9. 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.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

Proprietary Funds

The proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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. These notes to the basic financial statements can be found on pages 28-61 of this report.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

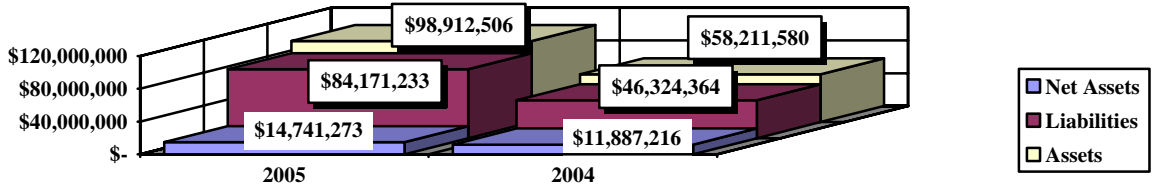
The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2005 and 2004.

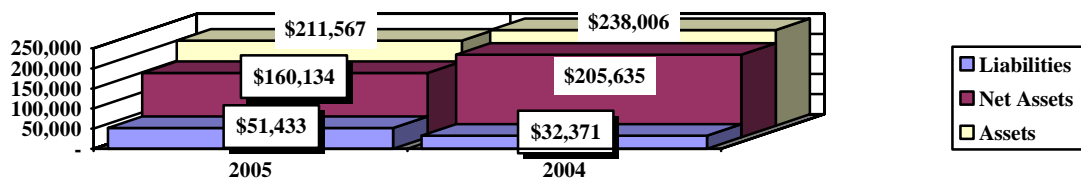
	Net Assets					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005	(Restated) 2004	2005	(Restated) 2004	2005	(Restated) 2004
<u>Assets</u>						
Current assets	\$ 55,893,808	\$ 18,027,703	\$ 43,241	\$ 55,721	\$ 55,937,049	\$ 18,083,424
Capital assets	43,018,698	40,183,877	168,326	182,285	43,187,024	40,366,162
Total assets	98,912,506	58,211,580	211,567	238,006	99,124,073	58,449,586
<u>Liabilities</u>						
Current liabilities	12,596,732	13,274,633	45,320	32,371	12,642,052	13,307,004
Long-term liabilities	71,574,501	33,049,731	6,113	-	71,580,614	33,049,731
Total liabilities	84,171,233	46,324,364	51,433	32,371	84,222,666	46,356,735
<u>Net Assets</u>						
Invested in capital assets, net of related debt	8,963,598	7,666,870	168,326	182,285	9,131,924	7,849,155
Restricted	4,874,151	597,954	-	-	4,874,151	597,954
Unrestricted (deficit)	903,524	3,622,392	(8,192)	23,350	895,332	3,645,742
Total net assets	\$ 14,741,273	\$ 11,887,216	\$ 160,134	\$ 205,635	\$ 14,901,407	\$ 12,092,851

Total net assets increased by \$2,854,057 due primarily to an overall increase in long-term obligations and the corresponding increase in assets.

Governmental - Net Assets



Business-Type - Net Assets



**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

The table below shows the changes in net assets for fiscal years 2005 and 2004.

	Governmental		Change in Net Assets		Business-Type		Total	
	Activities		Activities					
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues								
Program revenues:								
Charges for services and sales	\$ 827,448	\$ 819,183	\$ 499,046	\$ 500,679	\$ 1,326,494	\$ 1,319,862		
Operating grants and contributions	1,240,489	1,057,490	244,338	144,127	1,484,827	1,201,617		
Capital grants and contributions	21,210	-	-	-	21,210	-		
General revenues:								
Property taxes	12,713,595	14,057,750	-	-	12,713,595	14,057,750		
Income taxes	2,352,160	-	-	-	2,352,160	-		
Grants and entitlements	10,893,799	9,526,850	-	-	10,893,799	9,526,850		
Investment earnings	327,817	61,836	134	-	327,951	61,836		
Miscellaneous	319,028	197,442	-	-	319,028	197,442		
Expenses								
Program expenses:								
Instruction:								
Regular	10,392,296	10,249,023	-	-	10,392,296	10,249,023		
Special	2,482,555	2,378,335	-	-	2,482,555	2,378,335		
Vocational	543,558	653,501	-	-	543,558	653,501		
Other	245	-	-	-	245	-		
Support services:								
Pupil	1,287,506	932,198	-	-	1,287,506	932,198		
Instructional staff	1,081,519	1,295,641	-	-	1,081,519	1,295,641		
Board of education	322,761	504,061	-	-	322,761	504,061		
Administration	1,957,134	1,954,977	-	-	1,957,134	1,954,977		
Fiscal	549,882	639,375	-	-	549,882	639,375		
Operations and maintenance	2,670,485	2,324,584	-	-	2,670,485	2,324,584		
Pupil transportation	1,549,372	1,539,348	-	-	1,549,372	1,539,348		
Central	294,257	140,795	-	-	294,257	140,795		
Operation of non-instructional services	14,478	416,004	-	-	14,478	416,004		
Extracurricular activities	873,926	868,206	-	-	873,926	868,206		
Interest and fiscal charges	1,821,515	1,648,809	-	-	1,821,515	1,648,809		
Food service	-	-	789,019	691,821	789,019	691,821		
Total expenses	<u>25,841,489</u>	<u>25,544,857</u>	<u>789,019</u>	<u>691,821</u>	<u>26,630,508</u>	<u>26,236,678</u>		
Changes in net assets before transfers	2,854,057	175,694	(45,501)	(47,015)	2,808,556	128,679		
Transfers	-	(57,110)	-	57,110	-	-		
Changes in net assets	2,854,057	118,584	(45,501)	10,095	2,808,556	128,679		
Net assets at beginning of year	11,887,216	11,768,632	205,635	195,540	12,092,851	11,964,172		
Net assets at end of year	<u>\$ 14,741,273</u>	<u>\$ 11,887,216</u>	<u>\$ 160,134</u>	<u>\$ 205,635</u>	<u>\$ 14,901,407</u>	<u>\$ 12,092,851</u>		

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

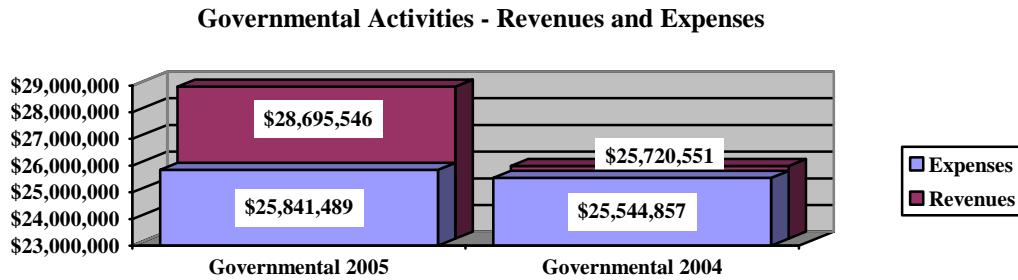
Governmental Activities

Net assets of the District's governmental activities increased by \$2,854,057. Total governmental expenses of \$25,841,489 were offset by program revenues of \$2,089,147, and general revenues of \$26,606,399. Program revenues supported 8.08% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 90.47% of total governmental revenue. Real estate property is reappraised every six years.

The District's financial condition is solid as of the end of fiscal year 2005, but a trend of expenses exceeding revenues appears to have begun. This trend is expected to continue the next two years. The principle cause is stagnate growth in revenue, increases in student enrollment causing increases in personnel costs, coupled with major increases in special education costs and utility costs.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Services 2005	Services 2005	Services 2004	Services 2004
Program expenses:				
Instruction:				
Regular	\$ 10,392,296	\$ 9,852,042	\$ 10,249,023	\$ 9,711,206
Special	2,482,555	2,096,959	2,378,335	1,929,821
Vocational	543,558	542,571	653,501	653,501
Other	245	245	-	-
Total	<u>\$ 13,418,654</u>	<u>\$ 12,491,817</u>	<u>\$ 13,280,859</u>	<u>\$ 12,294,528</u>

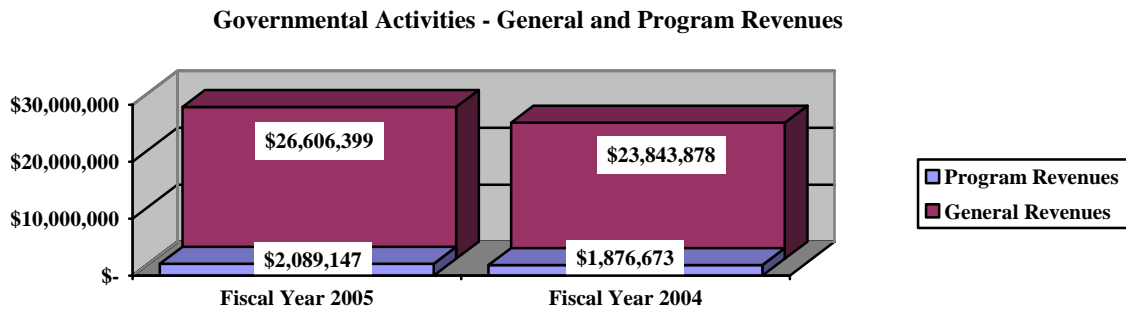
**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Support services:				
Pupil	\$ 1,287,506	\$ 930,930	\$ 932,198	\$ 932,198
Instructional staff	1,081,519	957,564	1,295,641	1,203,038
Board of Education	322,761	322,761	504,061	504,061
Administration	1,957,134	1,903,130	1,954,977	1,801,033
Fiscal	549,882	535,275	639,375	629,969
Operations and maintenance	2,670,485	2,670,485	2,324,584	2,324,584
Pupil transportation	1,549,372	1,462,898	1,539,348	1,483,799
Central	294,257	279,257	140,795	125,795
Operation of non-instructional services	14,478	(32,046)	416,004	416,004
Extracurricular activities	873,926	408,756	868,206	304,366
Interest and fiscal charges	<u>1,821,515</u>	<u>1,821,515</u>	<u>1,648,809</u>	<u>1,648,809</u>
Total expenses	<u>\$ 25,841,489</u>	<u>\$ 23,752,342</u>	<u>\$ 25,544,857</u>	<u>\$ 23,668,184</u>

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 93.09% of 2005 instruction activities are supported through taxes and other general revenues. The District's taxpayers, as a whole, is by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



Business-Type Activities

Business-type activities include food service operations. This program had revenues of \$743,518 and expenses of \$789,019 for fiscal year 2005. Business-type activities decreased \$45,501 in fiscal year 2005. The District's business-type activities do not receive support from tax revenues. The activities of the enterprise fund are presented on pages 24-26.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

The District's Governmental Funds

The District's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of \$41,425, 376, which is above last year's total of \$3,565,253. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	<u>Increase</u>
General	\$ 4,292,183	\$ 2,102,384	\$ 2,189,799
Debt Service	4,585,820	1,064,827	3,520,993
Building	32,108,915	2,285	32,106,630
Other Governmental	<u>438,458</u>	<u>395,757</u>	<u>42,701</u>
Total	<u>\$ 41,425,376</u>	<u>\$ 3,565,253</u>	<u>\$37,860,123</u>

General Fund

The District's general fund balance increased \$2,189,799 during 2005. This was due to several factors. A 6.3 mill continuing levy was placed on the ballot in March 2004 which replaced the 3 year emergency levy that had passed in November 2001. Additional income was needed, but the Board determined to make approximately \$2.3 million in program reductions instead of running a levy for additional income in November 2004. The majority of reductions were continued throughout future years.

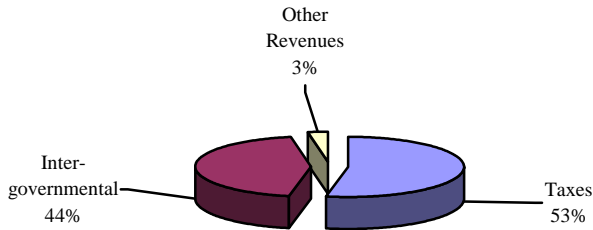
	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 12,727,174	\$ 11,424,425	11.40 %
Intergovernmental	10,622,588	9,398,862	13.02 %
Other revenues	<u>692,177</u>	<u>471,163</u>	46.91 %
Total	<u>\$ 24,041,939</u>	<u>\$ 21,294,450</u>	12.90 %

Tax revenue increased by \$1,302,749 or 11.40% from fiscal 2004 due to the first full year collections on the 6.3 mil continuing levy. Other revenues increased due to an increase in the pay to participate fees from \$35 to \$70, an increase in interest earnings, and rental of facilities and other miscellaneous income.

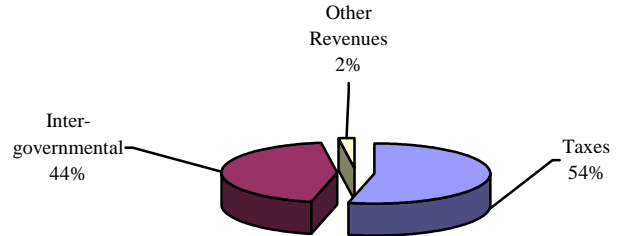
**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

Revenues - Fiscal Year 2005



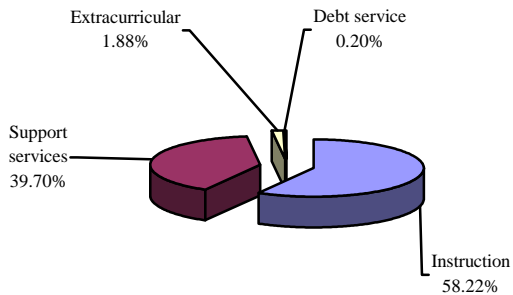
Revenues - Fiscal Year 2004



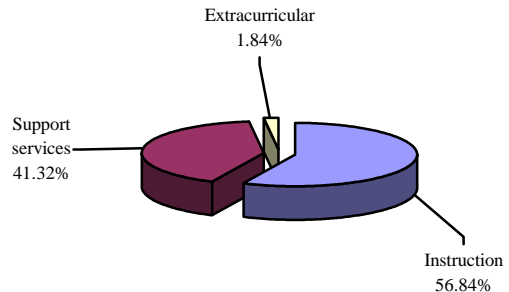
The table that follows assists in illustrating the expenditures of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
Instruction	\$ 12,583,161	\$ 12,342,652	1.95 %
Support services	8,580,024	8,973,978	(4.39) %
Extracurricular activities	406,008	400,023	1.50 %
Debt service	<u>43,508</u>	<u>-</u>	100.00 %
Total	<u>\$ 21,612,701</u>	<u>\$ 21,716,653</u>	(0.48) %

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

Debt Service Fund

The debt service fund had \$17,752,119 in revenues and other financing sources and \$14,231,126 in expenditures and other financing uses. The fund balance of the debt service fund increased \$3,520,993 from \$1,064,827 to \$4,585,820.

Building Fund

The building fund had \$35,528,466 in revenues and other financing sources and \$3,421,836 in expenditures. The fund balance of the building fund increased \$32,106,630 from \$2,285 to \$32,108,915.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, original budgeted revenues and other financing sources were \$21,638,381. Final budgeted revenues of \$22,934,153 were \$24,067, below actual revenues and other financing sources of \$22,958,220. Of this \$24,067 difference, most was due to earnings on investments estimates in the original and final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) were \$23,539,843 and final appropriations were \$23,102,644. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$22,564,857, which was \$537,787 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$43,018,698 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). The following table shows fiscal 2005 balances compared to 2004:

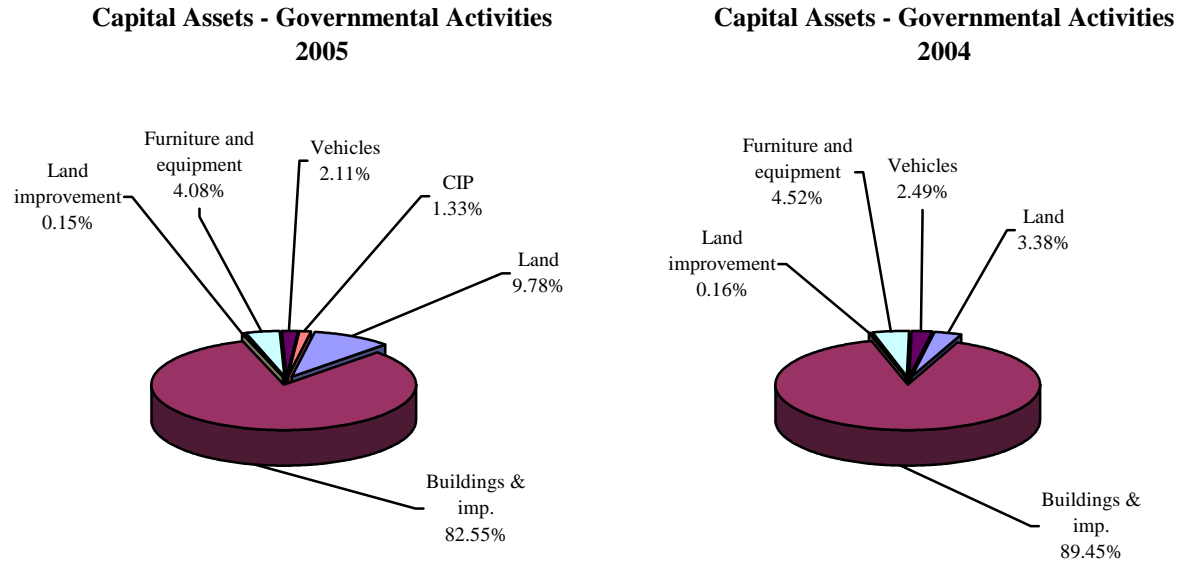
**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 4,205,598	\$ 1,357,784	\$ -	\$ -	\$ 4,205,598	\$ 1,357,784
Land improvements	64,491	65,561	-	-	64,491	65,561
Buildings and improvements	35,512,529	35,943,732	-	-	35,512,529	35,943,732
Furniture and equipment	1,753,055	1,816,982	166,892	180,594	1,919,947	1,997,576
Vehicles	909,003	999,818	1,434	1,691	910,437	1,001,509
Construction in progress	<u>574,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>574,022</u>	<u>-</u>
Total	<u>\$ 43,018,698</u>	<u>\$ 40,183,877</u>	<u>\$ 168,326</u>	<u>\$ 182,285</u>	<u>\$ 43,187,024</u>	<u>\$ 40,366,162</u>

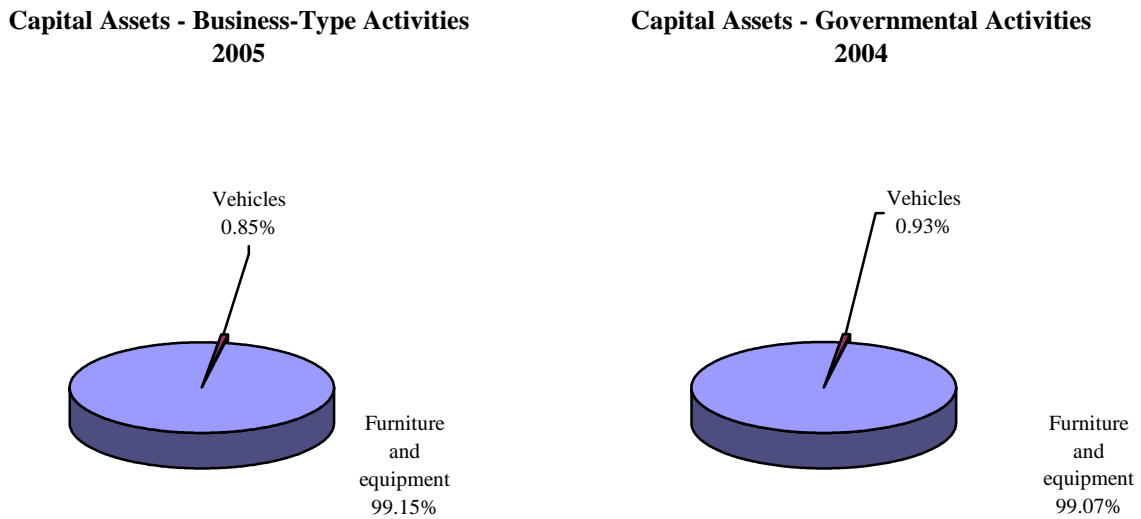
**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

The following graphs show the breakdown of governmental activities capital assets by category for 2005 and 2004.



The following graphs show the breakdown of business-type activities capital assets by category for 2005 and 2004.



See Note 9 to the basic financial statements for detail on the District's capital assets.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

Debt Administration

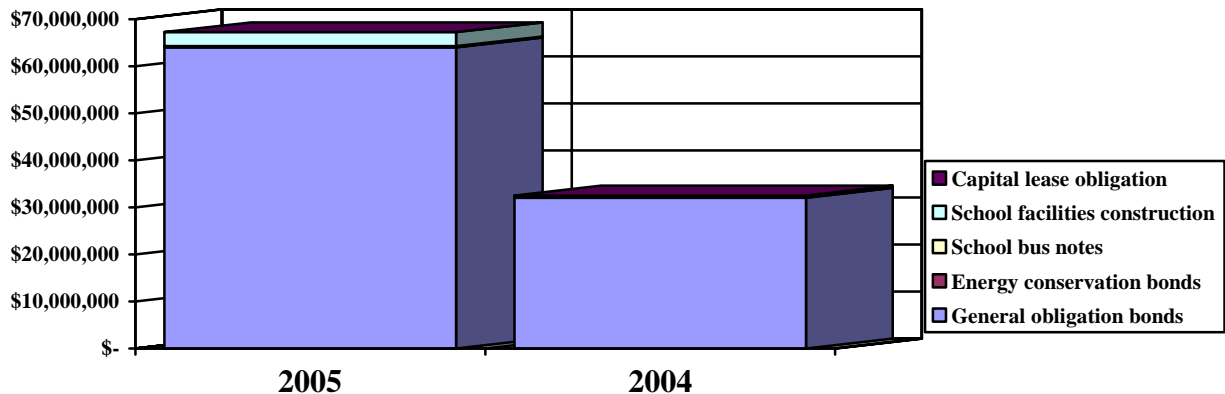
At June 30, 2005 the District had \$64,004,768 in general obligation bonds,, \$163,781 in energy conservation bonds, \$84,000 in school bus notes, \$3,000,000 in school facilities construction and improvement notes and \$7,260 in capital lease obligations outstanding. Of the total outstanding debt, \$4,727,041 is due within one year and \$62,532,726 is due in greater than one year. The following table summarizes the bonds, notes and lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
General obligation bonds	\$ 64,004,768	\$ 32,027,981
Energy conservation bonds	163,781	318,781
School bus notes	84,000	121,000
School facilities construction and improvement notes	3,000,000	-
Capital lease obligation	<u>7,260</u>	<u>49,245</u>
Total	<u>\$ 67,259,809</u>	<u>\$ 32,517,007</u>

The following graphs show the breakdown of outstanding debt by category for 2005 and 2004.

Outstanding Debt



See Note 11 to the basic financial statements for detail on the District's debt administration.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

Current Financial Related Activities

The first challenge facing the District is based in the local economy. The District has experienced significant growth over the last 10 years. If the growth patterns in student population change so additional for fewer students enter the District than currently anticipated, adjustments will have to be made to the financial models upon which assumptions have been made. Also, an economic slowdown could result in revenue forecasts having to be revised downward. Either of these scenarios could cause the District to scale down the educational program offerings or seek additional resources.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Joyce Boyer, Treasurer, Canal Winchester Local School District, 290 Washington Street, Canal Winchester, Ohio 43110.

**BASIC
FINANCIAL STATEMENTS**

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**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 12,382,458	\$ 17,005	\$ 12,399,463
Cash in segregated accounts	11,150	-	11,150
Cash with fiscal agent	672,738	-	672,738
Investments.	28,072,396	-	28,072,396
Receivables:			
Taxes.	13,980,528	-	13,980,528
Accounts	15,144	1,475	16,619
Intergovernmental	57,041	40,491	97,532
Accrued interest	59,129	-	59,129
Internal loan	25,276	(25,276)	-
Materials and supplies inventory	-	9,546	9,546
Unamortized bond issue costs	617,948	-	617,948
Capital assets:			
Land and construction in progress	4,779,620	-	4,779,620
Depreciable capital assets, net	38,239,078	168,326	38,407,404
Capital assets, net	<u>43,018,698</u>	<u>168,326</u>	<u>43,187,024</u>
Total assets	<u>98,912,506</u>	<u>211,567</u>	<u>99,124,073</u>
Liabilities:			
Accounts payable.	179,311	19,338	198,649
Contracts payable.	168,778	-	168,778
Accrued wages and benefits	1,696,295	8,602	1,704,897
Pension obligation payable.	498,136	17,056	515,192
Intergovernmental payable	105,640	324	105,964
Deferred revenue	9,365,541	-	9,365,541
Accrued interest payable	382,117	-	382,117
Matured bonds payable.	11,150	-	11,150
Matured interest payable	1,150	-	1,150
Claims payable	188,614	-	188,614
Long-term liabilities:			
Due within one year.	5,020,549	-	5,020,549
Due in more than one year	66,553,952	6,113	66,560,065
Total liabilities	<u>84,171,233</u>	<u>51,433</u>	<u>84,222,666</u>
Net Assets:			
Invested in capital assets, net of related debt.	8,963,598	168,326	9,131,924
Restricted for:			
Capital projects	221,691	-	221,691
Debt service.	4,347,748	-	4,347,748
Classroom facilities.	44,379	-	44,379
Locally funded programs	200	-	200
State funded programs	149,480	-	149,480
Federally funded programs	30,442	-	30,442
Student activities	34,468	-	34,468
Public school support	45,743	-	45,743
Unrestricted (deficit)	<u>903,524</u>	<u>(8,192)</u>	<u>895,332</u>
Total net assets	<u>\$ 14,741,273</u>	<u>\$ 160,134</u>	<u>\$ 14,901,407</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 10,392,296	\$ 229,280	\$ 289,764	\$ 21,210
Special	2,482,555	-	385,596	-
Vocational	543,558	-	987	-
Other.	245	-	-	-
Support services:				
Pupil.	1,287,506	-	356,576	-
Instructional staff	1,081,519	-	123,955	-
Board of education	322,761	-	-	-
Administration.	1,957,134	-	54,004	-
Fiscal.	549,882	-	14,607	-
Operations and maintenance	2,670,485	-	-	-
Pupil transportation	1,549,372	86,474	-	-
Central.	294,257	-	15,000	-
Operation of non-instructional services	14,478	46,524	-	-
Extracurricular activities	873,926	465,170	-	-
Interest and fiscal charges.	1,821,515	-	-	-
Total governmental activities.	<u>25,841,489</u>	<u>827,448</u>	<u>1,240,489</u>	<u>21,210</u>
Business-type activities:				
Food service.	<u>789,019</u>	<u>499,046</u>	<u>244,338</u>	<u>-</u>
Total business-type activities.	<u>789,019</u>	<u>499,046</u>	<u>244,338</u>	<u>-</u>
Totals.	<u>\$ 26,630,508</u>	<u>\$ 1,326,494</u>	<u>\$ 1,484,827</u>	<u>\$ 21,210</u>

General Revenues:

Property taxes levied for:
General purposes
Classroom facilities.
Debt service.
Income taxes levied for:
General purposes.
Grants and entitlements not restricted to specific programs.
Investment earnings
Miscellaneous
Total general revenues

Change in net assets.

Net assets at beginning of year (restated). . .

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (9,852,042)	\$ -	\$ (9,852,042)
(2,096,959)	-	(2,096,959)
(542,571)	-	(542,571)
(245)	-	(245)
(930,930)	-	(930,930)
(957,564)	-	(957,564)
(322,761)	-	(322,761)
(1,903,130)	-	(1,903,130)
(535,275)	-	(535,275)
(2,670,485)	-	(2,670,485)
(1,462,898)	-	(1,462,898)
(279,257)	-	(279,257)
32,046	-	32,046
(408,756)	-	(408,756)
(1,821,515)	-	(1,821,515)
<u>(23,752,342)</u>	<u>-</u>	<u>(23,752,342)</u>
-	(45,635)	(45,635)
-	(45,635)	(45,635)
<u>(23,752,342)</u>	<u>(45,635)</u>	<u>(23,797,977)</u>
10,295,135	-	10,295,135
139,588	-	139,588
2,278,872	-	2,278,872
2,352,160	-	2,352,160
10,893,799	-	10,893,799
327,817	134	327,951
319,028	-	319,028
<u>26,606,399</u>	<u>134</u>	<u>26,606,533</u>
2,854,057	(45,501)	2,808,556
<u>11,887,216</u>	<u>205,635</u>	<u>12,092,851</u>
<u>\$ 14,741,273</u>	<u>\$ 160,134</u>	<u>\$ 14,901,407</u>

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,324,738	\$ 4,003,870	\$ 4,176,831	\$ 573,022	\$ 12,078,461
Cash in segregated accounts	-	11,150	-	-	11,150
Investments.	-	-	28,072,396	-	28,072,396
Receivables:					
Taxes.	11,335,207	2,492,761	-	152,560	13,980,528
Accounts	15,144	-	-	-	15,144
Intergovernmental	-	-	-	57,041	57,041
Accrued interest	30,663	-	28,466	-	59,129
Interfund loans	87,906	-	-	-	87,906
Total assets	<u>\$ 14,793,658</u>	<u>\$ 6,507,781</u>	<u>\$ 32,277,693</u>	<u>\$ 782,623</u>	<u>\$ 54,361,755</u>
Liabilities:					
Accounts payable	\$ 143,615	\$ -	\$ -	\$ 35,247	\$ 178,862
Contracts payable	-	-	168,778	-	168,778
Accrued wages and benefits	1,634,948	-	-	61,348	1,696,296
Compensated absences payable	38,588	-	-	-	38,588
Pension obligation payable.	484,629	-	-	13,507	498,136
Intergovernmental payable.	102,655	-	-	2,984	105,639
Interfund loan payable	-	-	-	57,041	57,041
Deferred revenue.	8,097,040	1,909,661	-	174,038	10,180,739
Matured bonds payable	-	11,150	-	-	11,150
Matured interest payable	-	1,150	-	-	1,150
Total liabilities	<u>10,501,475</u>	<u>1,921,961</u>	<u>168,778</u>	<u>344,165</u>	<u>12,936,379</u>
Fund Balances:					
Reserved for encumbrances	277,390	-	2,906,117	171,941	3,355,448
Reserved for debt service	-	4,002,720	-	-	4,002,720
Reserved for property tax unavailable for appropriation	2,408,951	583,100	-	35,563	3,027,614
Unreserved, undesignated, reported in:					
General fund	1,605,842	-	-	-	1,605,842
Special revenue funds.	-	-	-	40,014	40,014
Capital projects funds.	-	-	29,202,798	190,940	29,393,738
Total fund balances	<u>4,292,183</u>	<u>4,585,820</u>	<u>32,108,915</u>	<u>438,458</u>	<u>41,425,376</u>
Total liabilities and fund balances	<u>\$ 14,793,658</u>	<u>\$ 6,507,781</u>	<u>\$ 32,277,693</u>	<u>\$ 782,623</u>	<u>\$ 54,361,755</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	41,425,376
<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.			43,018,698
Other long-term assets (taxes) are not available to pay for current period expenditures and therefore are deferred in the funds.			
Taxes	\$	758,969	
Intergovernmental revenue		39,188	
Interest revenue		17,041	
Total			815,198
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets, including internal balances are:			782,083
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(382,117)
Unamortized premiums on bond issuance is not recognized in the funds.			(4,460,137)
Unamortized bond issuance costs are not recognized in the funds.			617,948
Unamortized deferred charges on refundings are not recognized in the funds.			898,035
Long-term liabilities, including bonds, leases and notes payable are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(714,002)	
General obligation bonds payable		(64,004,768)	
Energy conservation bonds payable		(163,781)	
Notes payable		(3,084,000)	
Capital lease obligation payable		(7,260)	
Total			(67,973,811)
Net assets of governmental activities		\$	14,741,273

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 12,727,174	\$ 2,297,856	\$ -	\$ 140,750	\$ 15,165,780
Tuition.	69,343	-	-	-	69,343
Transportation fees	86,474	-	-	-	86,474
Earnings on investments.	180,242	96,990	28,466	5,078	310,776
Classroom materials and fees	159,937	-	-	-	159,937
Extracurricular.	58,365	-	-	406,805	465,170
Other local revenues.	137,816	-	-	225,551	363,367
Intergovernmental - State	10,622,588	255,771	-	455,307	11,333,666
Intergovernmental - Federal.	-	-	-	782,644	782,644
Total revenues	<u>24,041,939</u>	<u>2,650,617</u>	<u>28,466</u>	<u>2,016,135</u>	<u>28,737,157</u>
Expenditures:					
Current:					
Instruction:					
Regular	9,962,390	-	-	309,522	10,271,912
Special.	2,085,639	-	-	388,360	2,473,999
Vocational.	535,132	-	-	954	536,086
Other	-	-	-	245	245
Support Services:					
Pupil.	918,218	-	-	363,651	1,281,869
Instructional staff	958,269	-	-	103,283	1,061,552
Board of education	322,761	-	-	-	322,761
Administration.	1,824,872	-	-	55,241	1,880,113
Fiscal	495,699	27,405	-	15,393	538,497
Operations and maintenance.	2,320,171	-	-	292,949	2,613,120
Pupil transportation	1,613,312	-	-	-	1,613,312
Central.	126,722	-	-	15,000	141,722
Extracurricular activities.	406,008	-	-	428,836	834,844
Facilities acquisition and construction	-	-	3,421,836	-	3,421,836
Debt service:					
Principal retirement	41,985	952,000	-	-	993,985
Interest and fiscal charges	1,523	1,347,289	-	-	1,348,812
Bond issue costs	-	621,829	-	-	621,829
Total expenditures	<u>21,612,701</u>	<u>2,948,523</u>	<u>3,421,836</u>	<u>1,973,434</u>	<u>29,956,494</u>
Excess of revenues over (under) expenditures.	<u>2,429,238</u>	<u>(297,906)</u>	<u>(3,393,370)</u>	<u>42,701</u>	<u>(1,219,337)</u>
Other financing sources (uses):					
Transfers in	-	241,624	-	-	241,624
Transfers out.	(241,624)	-	-	-	(241,624)
Sale of bonds	-	-	32,500,000	-	32,500,000
Sale of refunding bonds.	-	10,375,000	-	-	10,375,000
Sale of notes.	-	-	3,000,000	-	3,000,000
Premium on bonds and notes	-	4,484,878	-	-	4,484,878
Payment to refunding bond escrow agent	-	(11,282,603)	-	-	(11,282,603)
Sale of capital assets.	2,185	-	-	-	2,185
Total other financing sources (uses)	<u>(239,439)</u>	<u>3,818,899</u>	<u>35,500,000</u>	<u>-</u>	<u>39,079,460</u>
Net change in fund balances	2,189,799	3,520,993	32,106,630	42,701	37,860,123
Fund balances at beginning of year (restated)	<u>2,102,384</u>	<u>1,064,827</u>	<u>2,285</u>	<u>395,757</u>	<u>3,565,253</u>
Fund balances at end of year	<u>\$ 4,292,183</u>	<u>\$ 4,585,820</u>	<u>\$ 32,108,915</u>	<u>\$ 438,458</u>	<u>\$ 41,425,376</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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, 2005

Net change in fund balances - total governmental funds		\$ 37,860,123
<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 outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 3,635,641	
Current year depreciation	<u>(800,820)</u>	
Total		2,834,821
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(100,025)	
Intergovernmental revenue	39,188	
Interest revenue	<u>17,041</u>	
Total		(43,796)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		11,368,985
Proceeds of bonds and notes are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement of net assets.		
		(45,875,000)
Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		
		898,035
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		
		(4,460,137)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		
		617,948
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
Accrued interest	(247,208)	
Accreted interest on capital appreciation bonds	<u>(236,787)</u>	
Total		(483,995)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(181,278)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balances, is allocated among governmental activities.		
		<u>318,351</u>
Change in net assets of governmental activities		<u>\$ 2,854,057</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 10,822,471	\$ 11,480,231	\$ 11,480,231	\$ -
Tuition	74,552	79,083	79,083	-
Transportation fees	81,469	86,285	86,420	135
Earnings on investments	167,127	162,000	177,285	15,285
Extracurricular	55,021	58,365	58,365	-
Classroom materials and fees	149,966	155,208	159,080	3,872
Other local revenues	119,511	126,718	131,493	4,775
Intergovernmental - State	10,013,967	10,622,588	10,622,588	-
Total revenues	<u>21,484,084</u>	<u>22,770,478</u>	<u>22,794,545</u>	<u>24,067</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,371,528	10,282,408	10,135,704	146,704
Special	2,181,309	2,191,184	2,160,341	30,843
Vocational	553,238	558,153	553,293	4,860
Support services:				
Pupil	920,821	927,301	922,415	4,886
Instructional staff	984,062	972,523	970,079	2,444
Board of education	522,033	335,024	321,178	13,846
Administration	1,960,099	1,922,186	1,878,373	43,813
Fiscal	639,747	598,613	586,083	12,530
Operations and maintenance	2,759,655	2,641,311	2,561,990	79,321
Pupil transportation	1,708,144	1,678,822	1,613,010	65,812
Central	165,664	133,780	131,019	2,761
Extracurricular activities	436,918	417,967	416,273	1,694
Total expenditures	<u>23,203,218</u>	<u>22,659,272</u>	<u>22,249,758</u>	<u>409,514</u>
Excess of revenues over (under) expenditures	<u>(1,719,134)</u>	<u>111,206</u>	<u>544,787</u>	<u>433,581</u>
Other financing sources (uses):				
Refund of prior year expenditure	31	33	33	-
Refund of prior year receipt	-	(570)	(570)	-
Transfers (out)	(286,625)	(286,625)	(241,624)	45,001
Advances in	152,206	161,457	161,457	-
Advances (out)	-	(72,905)	(72,905)	-
Sale of capital assets	2,060	2,185	2,185	-
Other financing uses	(50,000)	(83,272)	-	83,272
Total other financing sources (uses)	<u>(182,328)</u>	<u>(279,697)</u>	<u>(151,424)</u>	<u>128,273</u>
Net change in fund balance	(1,901,462)	(168,491)	393,363	561,854
Fund balance at beginning of year (restated)				
	1,807,152	1,807,152	1,807,152	-
Prior year encumbrances appropriated				
	746,102	746,102	746,102	-
Fund balance at end of year	<u>\$ 651,792</u>	<u>\$ 2,384,763</u>	<u>\$ 2,946,617</u>	<u>\$ 561,854</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-Type Activities - Food Service	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents.	\$ 17,005	\$ 303,997
Cash with fiscal agent.	-	672,738
Receivables:		
Accounts.	1,475	-
Intergovernmental.	40,491	-
Materials and supplies inventory	9,546	-
Total current assets	<u>68,517</u>	<u>976,735</u>
Noncurrent assets:		
Depreciable capital assets, net	<u>168,326</u>	<u>-</u>
Total assets	<u>236,843</u>	<u>976,735</u>
Liabilities:		
Accounts payable.	19,338	449
Accrued wages and benefits	8,602	-
Pension obligation payable.	17,056	-
Interfund loan payable	30,865	-
Intergovernmental payable	324	-
Claims payable	-	188,614
Total liabilities	<u>76,185</u>	<u>189,063</u>
Long-term liabilities:		
Compensated absences.	<u>6,113</u>	<u>-</u>
Total liabilities	<u>82,298</u>	<u>189,063</u>
Net assets:		
Invested in capital assets	168,326	-
Unrestricted (deficit)	<u>(13,781)</u>	<u>787,672</u>
Total net assets	<u>154,545</u>	<u>\$ 787,672</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds.	<u>5,589</u>	
Net assets of business-type activities.	<u>\$ 160,134</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Food Service	Governmental Activities - Internal Service Fund
Operating revenues:		
Sales/charges for services.	\$ 499,046	\$ 2,565,615
Total operating revenues.	499,046	2,565,615
Operating expenses:		
Personal services	93,259	-
Purchased services.	616,374	194,445
Materials and supplies.	71,016	-
Depreciation.	13,959	-
Claims expense	-	2,047,230
Total operating expenses.	794,608	2,241,675
Operating income (loss)	(295,562)	323,940
Nonoperating revenues:		
Federal donated commodities.	71,375	-
Interest revenue	134	-
Operating grants.	172,963	-
Total nonoperating revenues.	244,472	-
Change in net assets	(51,090)	323,940
Net assets at beginning of year (restated) .		463,732
Net assets at end of year.		\$ 787,672
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.	5,589	
Changes in net assets of business-type activities.	\$ (45,501)	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Food Service	Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from sales/charges for services	\$ 497,604	\$ 2,565,615
Cash payments for personal services	(72,906)	-
Cash payments for purchased services.	(597,036)	(194,723)
Cash payments for materials and supplies.	(299)	-
Cash payments for other claims	-	(2,033,104)
	<u>(172,637)</u>	<u>337,788</u>
Net cash provided by (used in) operating activities		
Cash flows from noncapital financing activities:		
Cash received from operating grants	151,437	-
Cash received from interfund loans	15,865	-
	<u>167,302</u>	<u>-</u>
Net cash provided by noncapital financing activities		
Cash flows from investing activities:		
Interest received	134	-
	<u>134</u>	<u>-</u>
Net cash provided by investing activities.		
Net increase (decrease) in cash and cash equivalents .	(5,201)	337,788
Cash and cash equivalents at beginning of year. . .	<u>22,206</u>	<u>638,947</u>
Cash and cash equivalents at end of year	<u>\$ 17,005</u>	<u>\$ 976,735</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (295,562)	\$ 323,940
Adjustments:		
Depreciation	13,959	-
Federal donated commodities.	71,375	-
Changes in assets and liabilities:		
Decrease in materials and supplies inventory.	4,971	-
Increase in accounts receivable	(1,442)	-
Increase (decrease) in accounts payable.	10,391	(1)
Increase (decrease) in accrued wages and benefits. . .	465	(277)
Decrease in pension obligation payable.	17,056	-
Decrease in intergovernmental payable	37	-
Increase in compensated absences payable	6,113	-
Decrease in claims payable	-	14,126
	<u>-</u>	<u>14,126</u>
Net cash provided by (used in) operating activities	<u>\$ (172,637)</u>	<u>\$ 337,788</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 23,370
Receivables:	
Accounts	78
Total assets.	\$ 23,448
Liabilities:	
Due to students	\$ 23,448
Total liabilities	\$ 23,448

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Canal Winchester Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local District as defined by Section 3311.0 of the Ohio Revised code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2004 was 2,828. The district employed 203 full-time certified employees and 110 full-time non-certified employees. The district is supervised by the Franklin County Educational Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 type activity and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic 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 the District, this includes general operations, food service, preschool 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 organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organizations; or (2) the District is legally entitled to or can otherwise have access to the organizations' resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) 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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council (the "MEC")

MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. MEC is established under the Ohio Revised Code Chapter 167 as a regional council of governments. The governing board of MEC consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. MEC provides computer services to the District.

The District has an equity interest that is explicit and measurable in that the joint venture agreement stipulates that the participants have a future claim to the net resources of MEC upon dissolution. MEC is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future.

Financial information can be obtained from the offices of the Director, Metropolitan Educational Council, 2100 City Gate Drive, Columbus, Ohio.

South Central Ohio Insurance Consortium

The South Central Ohio Insurance Consortium (SCOIC) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than claims paid on behalf of the District for District Employees.

The District is not involved in the budgeting or the management of Parent-Teacher Organization or booster clubs. The District is also not responsible for any debt and has no influence over these organizations or clubs.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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 are the District's major governmental funds:

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Building Fund - This fund is used to account for monies received and expended in connection with the renovation and construction of District buildings.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's major proprietary funds:

Enterprise Fund - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has one enterprise fund to account for food service operations. The enterprise fund is considered a major fund.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

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. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

C. Basis of Presentation and Measurement Focus

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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. 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 - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting on the fund financial statements. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants and student fees

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, 2005, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are Publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Franklin County Budget Commission for tax rate determination.
3. Prior to March 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By October 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term inter-fund loans are not required to be budgeted since they represent a temporary cash flow resource, and are not intended to be repaid.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either re-allocated or increase the original, appropriated amounts. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
9. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities.

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

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund except for those specifically related to the auxiliary services fund, debt service fund and building fund authorized by board resolution. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$180,242, which includes \$138,937 assigned from other District funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

An analysis of the District's investments at year-end is provided in Note 4.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

G. Inventory

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

Inventory consists of supplies, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset life are not. Interest incurred during the construction of capital assets is also 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>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	15 - 100 years	N/A
Furniture and equipment	5 - 20 years	8 - 20 years
Vehicles	10 years	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental type activities columns of the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For 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. In proprietary funds, the entire amount of compensated absences is reported as fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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 judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and other long-term obligations are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, debt service, and property tax unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

M. Restricted Assets

Assets are reported as restricted assets 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 include the amount required by state statute to be set aside to create a reserve for budget stabilization. See Note 18 for details.

N. Estimates

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

O. 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.

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenditures not meeting this definition are reported as non-operating.

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

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

R. Interfund Activity

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

S. Unamortized Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

T. 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. Extraordinary and special item transactions did not occur during fiscal year 2005.

U. Parochial Schools

World Harvest Church is within the District boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District is reflected in a special revenue fund for financial reporting purposes.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle and Prior Period Adjustments

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

During 2005, the District reclassified a fund previously reported as an agency fund to a component of the general fund. In addition, adjustments were made to properly state the balances of the capital appreciation bonds and capital assets.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2, and the prior period adjustments had the following effects on the fund balances and net assets as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 2,050,088	\$ 1,064,827	\$ 2,285	\$ 399,025	\$ 3,516,225
Adjustment for GASB Technical Bulletin 2004-002	(169,143)	-	-	(3,268)	(172,411)
Adjustment for fund reclassification	<u>221,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>221,439</u>
Fund balance at June 30, 2004, restated	<u>\$ 2,102,384</u>	<u>\$ 1,064,827</u>	<u>\$ 2,285</u>	<u>\$ 395,757</u>	<u>\$ 3,565,253</u>

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets at June 30, 2004	\$ 13,736,646	\$ 168,435
Adjustment for fund reclassification	221,439	-
Adjustment for capital assets	(1,181,111)	37,200
Adjustment for capital appreciation bond	<u>(889,758)</u>	<u>-</u>
Net assets at June 30, 2004, restated	<u>\$ 11,887,216</u>	<u>\$ 205,635</u>

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non - GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$2,331,815 to \$1,807,152 due to a fund reclassification to properly reflect its intended purpose in accordance with GASB Statement No. 34 and an error reported in the prior year.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Education Management Information System	\$ 686
Summer School	11,703
Title VI-B	2,681
Title I	13,006
Miscellaneous Federal Grants	271

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - 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 of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2005 was \$672,738.

B. Cash in Segregated Account

At fiscal year-end, \$11,150 was on deposit in the District's debt service clearance account and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet and statement of net assets as "Equity in Pooled Cash and Cash Equivalents".

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$38,702,259. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$38,105,916 of the District's bank balance of \$38,305,916 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of 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.

D. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>	
		6 months or less	
FNMA	\$ 496,223	\$	496,223
FHLMC DN	983,320		983,320
FNMA DN	973,690		973,690
STAR Ohio	23,625		23,625
	<u>\$ 2,476,858</u>	<u>\$</u>	<u>2,476,858</u>

The weighted average maturity of investments is .24 years.

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

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA	\$ 496,223	20.04
FLMC DN	983,320	39.70
FNMA DN	973,690	39.31
STAR Ohio	23,625	0.95
	<u>\$ 2,476,858</u>	<u>100.00</u>

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 38,702,259
Investments	<u>2,476,858</u>
Total	<u>\$ 41,179,117</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 41,138,742
Business type activities	17,005
Agency funds	<u>23,370</u>
Total	<u>\$ 41,179,117</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances consisted of the following at June 30, 2005, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governments	\$ 57,041
	Food Service	30,865

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, only interfund balances between governmental activities and business-type activities are reported on the Statement of Net Assets.

B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Debt Service fund from:	
General Fund	\$ 241,624

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers made in fiscal year 2005 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Franklin County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$2,408,951 in the general fund, \$583,100 in the debt service fund and \$35,563 in the nonmajor governmental funds. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$2,008,265 in the general fund, \$466,873 in the debt service fund and \$28,991 in the nonmajor governmental funds.

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

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 293,808,010	87.71	\$ 313,712,120	87.78
Public utility personal	19,389,850	5.79	19,546,420	5.47
Tangible personal property	<u>21,800,650</u>	<u>6.50</u>	<u>24,125,031</u>	<u>6.75</u>
Total	<u>\$ 334,998,510</u>	<u>100.00</u>	<u>\$ 357,383,571</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 61.00		\$ 61.00	

NOTE 7 - INCOME TAX

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 13,980,528
Accounts	15,144
Intergovernmental	57,041
Accrued interest	<u>59,129</u>
Total	<u>\$ 14,111,842</u>

Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within one year.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

A. Capital assets were restated at June 30, 2004, due to errors and omissions reported in prior years.

	Balance at <u>06/30/04</u>	<u>Adjustment</u>	Restated Balance at <u>06/30/04</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,357,784	\$ -	\$ 1,357,784
Total capital assets, not being depreciated	<u>1,357,784</u>	<u>-</u>	<u>1,357,784</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	-	90,951	90,951
Buildings and improvements	40,150,987	(159,543)	39,991,444
Furniture and equipment	2,873,446	(67,110)	2,806,336
Vehicles	<u>1,802,032</u>	<u>27,447</u>	<u>1,829,479</u>
Total capital assets, being depreciated	<u>44,826,465</u>	<u>(108,255)</u>	<u>44,718,210</u>
<i>Less: accumulated depreciation:</i>			
Land improvements	-	(25,390)	(25,390)
Buildings	(2,992,873)	(1,054,839)	(4,047,712)
Furniture and equipment	(1,007,399)	18,045	(989,354)
Vehicles	<u>(818,989)</u>	<u>(10,672)</u>	<u>(829,661)</u>
Total accumulated depreciation	<u>(4,819,261)</u>	<u>(1,072,856)</u>	<u>(5,892,117)</u>
Governmental activities capital assets, net	<u>\$ 41,364,988</u>	<u>\$ (1,181,111)</u>	<u>\$ 40,183,877</u>
Business-Type Activities			
<i>Capital assets, being depreciated:</i>			
Furniture and equipment	\$ 304,528	\$ 40,866	\$ 345,394
Vehicles	2,601	-	2,601
Less: accumulated depreciation	<u>(162,044)</u>	<u>(3,666)</u>	<u>(165,710)</u>
Business-type activities capital assets, net	<u>\$ 145,085</u>	<u>\$ 37,200</u>	<u>\$ 182,285</u>

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated Balance <u>06/30/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,357,784	\$ 2,847,814	\$ -	\$ 4,205,598
Construction in progress	<u>-</u>	<u>574,022</u>	<u>-</u>	<u>574,022</u>
Total capital assets, not being depreciated	<u>1,357,784</u>	<u>3,421,836</u>	<u>-</u>	<u>4,779,620</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	90,951	-	-	90,951
Buildings and improvements	39,991,444	-	-	39,991,444
Furniture and equipment	2,806,336	146,975	(5,486)	2,947,825
Vehicles	<u>1,829,479</u>	<u>66,830</u>	<u>-</u>	<u>1,896,309</u>
Total capital assets, being depreciated	<u>44,718,210</u>	<u>213,805</u>	<u>(5,486)</u>	<u>44,926,529</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(25,390)	(1,070)	-	(26,460)
Buildings	(4,047,712)	(431,203)	-	(4,478,915)
Furniture and equipment	(989,354)	(210,902)	5,486	(1,194,770)
Vehicles	<u>(829,661)</u>	<u>(157,645)</u>	<u>-</u>	<u>(987,306)</u>
Total accumulated depreciation	<u>(5,892,117)</u>	<u>(800,820)</u>	<u>5,486</u>	<u>(6,687,451)</u>
Governmental activities capital assets, net	<u>40,183,877</u>	<u>2,834,821</u>	<u>-</u>	<u>43,018,698</u>
Business-Type Activities				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	345,394	-	-	345,394
Vehicles	<u>2,601</u>	<u>-</u>	<u>-</u>	<u>2,601</u>
Total capital assets being depreciated	<u>347,995</u>	<u>-</u>	<u>-</u>	<u>347,995</u>
<i>Less: accumulated depreciation</i>				
Furniture and equipment	(164,800)	(13,702)	-	(178,502)
Vehicles	<u>(910)</u>	<u>(257)</u>	<u>-</u>	<u>(1,167)</u>
Total accumulated depreciation	<u>(165,710)</u>	<u>(13,959)</u>	<u>-</u>	<u>(179,669)</u>
Business-type activities capital assets, net	<u>\$ 182,285</u>	<u>\$ (13,959)</u>	<u>\$ -</u>	<u>\$ 168,326</u>

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 355,868
Special	40,607
Vocational	18,370
<u>Support Services:</u>	
Pupil	25,613
Instructional staff	34,328
Administration	72,430
Fiscal	5,053
Operations and maintenance	31,017
Pupil transportation	2,197
Central	158,264
Extracurricular activities	42,595
Operation of non-instructional services	<u>14,478</u>
Total depreciation expense	<u>\$ 800,820</u>

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In a prior year, the District entered into capitalized leases for multiple copiers. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$41,985 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2006	\$ <u>7,260</u>
Total minimum lease payments	7,260
Less amount representing interest	<u>-</u>
Total	\$ <u><u>7,260</u></u>

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS

A. The balance of the District's capital appreciation bonds have been restated by \$889,758 to properly record accreted interest. This restatement increased the total governmental activities long-term liabilities from \$32,159,973 to \$33,049,731 at June 30, 2004. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	(Restated) Balance			Balance at	Due in
	June 30, 2004	Additions	Reductions	June 30, 2005	One Year
Governmental Activities:					
General obligation bonds:	\$ 32,027,981	\$ 43,111,787	\$ (11,135,000)	\$ 64,004,768	\$ 1,515,000
Energy conservation bonds	318,781	-	(155,000)	163,781	163,781
School bus notes	121,000	-	(37,000)	84,000	41,000
School facilities construction and improvement notes	-	3,000,000	-	3,000,000	3,000,000
Capital lease obligation	49,245	-	(41,985)	7,260	7,260
Compensated absences	532,724	375,711	(155,845)	752,590	293,508
Total long-term obligations, governmental activities	<u>\$ 33,049,731</u>	<u>\$ 46,487,498</u>	<u>\$ (11,524,830)</u>	<u>\$ 68,012,399</u>	<u>\$ 5,020,549</u>
Less: Unamortized deferred charge on refunding				(898,035)	
Add: Unamortized premium on refunding				4,460,137	
				<u>\$ 71,574,501</u>	

	Balance			Balance at	Due in
	June 30, 2004	Additions	Reductions	June 30, 2005	One Year
Business-Type Activities:					
Compensated absences	\$ -	\$ 6,113	\$ -	\$ 6,113	-
Total business-type activities long-term liabilities	<u>\$ -</u>	<u>\$ 6,113</u>	<u>\$ -</u>	<u>\$ 6,113</u>	<u>\$ -</u>

B. General Obligation Bonds

The District has seven outstanding general obligation bond issues. These bonds were issued for general governmental activities, specifically; construction, and/or renovation of school buildings, and the advance refunding of previous issues. These general obligation bonds are direct obligations of the district for which its full faith, credit, and resources are pledged and payable from taxes levied on all taxable property in the school district. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as an expenditure in the District's debt service fund. The following is a summary of the District's general obligation bonds outstanding at June 30, 2005:

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

	Restated Balance at <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2005</u>
General obligation bonds:				
Series 1993 refunding - current interest bonds	\$ 1,975,000	\$ -	\$ (1,975,000)	\$ -
Series 1993 refunding - capital appreciation bonds	94,860	-	-	94,860
Series 1993 refunding - accreted interest	<u>579,962</u>	<u>131,539</u>	-	<u>711,501</u>
	<u>2,649,822</u>	<u>131,539</u>	<u>(1,975,000)</u>	<u>806,361</u>
 Series 1998 - current interest bonds	 <u>13,280,000</u>	 <u>-</u>	 <u>(3,190,000)</u>	 <u>10,090,000</u>
Series 1998 - current interest building acquisition bonds	<u>85,000</u>	<u>-</u>	<u>(20,000)</u>	<u>65,000</u>
 Series 2000 - current interest bonds	 <u>885,000</u>	 <u>-</u>	 <u>(5,000)</u>	 <u>880,000</u>
Series 2001 - current interest bonds	14,480,000	-	(5,945,000)	8,535,000
Series 2001 - capital appreciation bonds	338,363	-	-	338,363
Series 2001 - accreted interest	<u>309,796</u>	<u>71,099</u>	-	<u>380,895</u>
	<u>15,128,159</u>	<u>71,099</u>	<u>(5,945,000)</u>	<u>9,254,258</u>
 Series 2005 - refunding current interest bonds	 -	 4,410,000	 -	 4,410,000
Series 2005 - refunding capital appreciation bonds	-	255,000	-	255,000
Series 2005 - accreted interest	<u>-</u>	<u>4,807</u>	-	<u>4,807</u>
	<u>-</u>	<u>4,669,807</u>	<u>-</u>	<u>4,669,807</u>
 Series 2005 - refunding and school facilities construction current interest bonds	 -	 34,610,000	 -	 34,610,000
Series 2005 - capital appreciation bonds	-	3,600,000	-	3,600,000
Series 2005 - accreted interest	<u>-</u>	<u>29,342</u>	-	<u>29,342</u>
	<u>-</u>	<u>38,239,342</u>	<u>-</u>	<u>38,239,342</u>
 Total general obligation bonds payable	 <u>\$ 32,027,981</u>	 <u>\$43,111,787</u>	 <u>(11,135,000)</u>	 <u>\$ 64,004,768</u>
 Payment for debt refunding			<u>10,375,000</u>	
 Principal payments on general obligation bonds			<u>\$ (760,000)</u>	

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Series 1993 Refunding General Obligation Bonds:

On June 23, 1993, the District issued general obligation bonds to advance refund the callable portion of the previously issued current interest general obligation bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. On April 14, 2005, the District issued \$1,610,000 (Series 1995-A Refunding Bonds) to advance refund the callable portion of the current interest bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The Series 1993 refunding issue outstanding at June 30, 2005 is comprised of capital appreciation bonds, par value \$94,860. The capital appreciation bonds mature December 1, 2006 (effective interest 19.490%), December 1, 2007 (effective interest 19.435%), and December 1, 2008 (effective interest 19.435%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$806,361. Total accreted interest of \$711,501 has been included in the statement of net assets.

Series 1998-A General Obligation Bonds:

On May 15, 1998, the District issued current interest general obligation bonds to finance the construction and equipping of a modular facility on the high school site for administrative services. The issue is made up of current interest bonds, bear an interest rate of 5.550% and mature on June 1, 2008. This issue is funded through revenue generated from .01 percent of the inside millage. The bonds have an outstanding balance of \$65,000 at June 30, 2005.

Series 1998-B General Obligation Bonds:

On April 1, 1998, the District issued current interest general obligation bonds to finance the construction and equipping of a new elementary school and improving the site thereof. The issue is made up of current interest bonds, bear an interest rate of 5.300% and mature on December 1, 2025. On April 14, 2005, the District issued \$3,055,000 (Series 1995A Refunding Bonds) to advance refund the callable portion of the bonds. At June 30, 2005, the balance of the Series 1998-B General Obligation Bonds was \$10,090,000.

Series 2000 General Obligation Bonds:

On May 9, 2000, the District issued current interest general obligation bonds to finance the construction of a new intermediate building, an addition to the high school and renovations to the current intermediate building. The issue is made up of current interest bonds, bear an interest rate of 6.375% and mature on June 1, 2028. The bonds have an outstanding balance of \$880,000 at June 30, 2005.

Series 2001 General Obligation Bonds:

On November 11, 2001, the District issued general obligation bonds to provide funds for the construction of a new intermediate building, an addition to the high school and renovations to the current intermediate building. On May 19, 2005, the District issued \$5,710,000 (Series 1995-B Refunding Bonds) to advance refund a portion of the callable portion of the current interest bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$8,535,000 outstanding at June 30, 2005, and capital appreciation bonds, par value \$338,363. The interest rate on the current interest bonds is 5.010%. The capital appreciation bonds mature on December 1, 2013 (effective interest 10.646%), December 1, 2014 (effective interest 10.847%), December 1, 2015 (effective interest 11.025%), December 1, 2016 (effective interest 11.185%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$719,258. A total of \$380,895 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2028.

Series 2005-A Refunding General Obligation Bonds

On April 14, 2005, the District issued general obligation bonds to advance refund \$1,610,000 of the current interest Series 1993 Refunding Bonds and \$3,055,000 of the current interest Series 1998-B General Obligation Bonds. The refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$4,410,000, and capital appreciation bonds, par value \$255,000. The interest rate on the current interest bonds ranges from 3.00-5.00%. The capital appreciation bonds mature December 1, 2013 (effective interest 32.820%) and December 1, 2019 (effective interest 8.214%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$259,807. Total accreted interest of \$4,807 has been included in the statement of net assets.

Interest payments on the current interest bonds are due on June 1 and December 1 each year. The final maturity stated in the issue is December 1, 2016.

The reacquisition price exceeded the net carrying amount of the old debt by \$297,874. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce the combined total debt service payments over the next twelve years by 112,528 and resulted in an economic gain of \$132,223.

Series 2005-B School Facilities Construction and Advance Refunding Bonds

On May 1, 2005, the District issued general obligation bonds to advance refund the callable portion of the current interest Series 2001 General Obligation Bonds (principal \$5,710,000; interest rate 5.010%) and to finance the construction and equipping of new school facilities, constructing additions and renovations of existing school facilities, and acquiring land with the \$32,500,000 new money issue. The issuance proceeds of \$5,710,000 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The debt issue is comprised of both current interest bonds, par value \$34,610,000, and capital appreciation bonds, par value \$3,600,000. The interest rate on the current interest bonds ranges from 3.00%-5.00%. The capital appreciation bonds mature December 1, 2021 (effective interest 11.049%), December 1, 2029 (effective interest 6.942%), December 1, 2030 (effective interest 6.946%), December 1, 2031 (effective interest 6.939%), December 1, 2032 (effective interest 6.950%), December 1, 2033 (effective interest 6.915%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$3,629,342. Total accreted interest of \$29,342 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$604,731. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$204,558 and resulted in an economic gain of \$172,746.

The following is a summary of the future debt service requirements to maturity for the general obligation bonds.

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,155,000	\$ 3,278,132	\$ 4,433,132	\$ 39,175	\$ 320,825	\$ 360,000
2007	340,000	3,296,868	3,636,868	31,147	308,853	340,000
2008	490,000	3,281,586	3,771,586	24,538	295,462	320,000
2009	730,000	3,256,117	3,986,117	-	-	-
2010	770,000	3,229,267	3,999,267	-	-	-
2011 - 2015	5,350,000	12,582,846	17,932,846	408,520	1,226,480	1,635,000
2016 - 2020	9,970,000	8,641,584	18,611,584	184,843	1,075,157	1,260,000
2021 - 2025	21,730,000	7,086,135	28,816,135	260,000	1,215,000	1,475,000
2026 - 2030	18,055,000	1,809,656	19,864,656	760,000	3,195,000	3,955,000
2031 - 2034	-	-	-	2,580,000	13,240,000	15,820,000
Total	<u>\$ 58,590,000</u>	<u>\$ 46,462,191</u>	<u>\$ 105,052,191</u>	<u>\$ 4,288,223</u>	<u>\$ 20,876,777</u>	<u>\$ 25,165,000</u>

C. Other Debt Obligations

H.B. Energy Conservation Bonds

The Board of Education has authorized the issuance of energy conservation bonds in the original amount of \$1,288,781 as authorized by House Bill 264. The bonds are to be paid by the debt service fund from energy expense savings. The bonds were dated July 15, 1996, mature in 2006, and bear an interest rate of 5.75%.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the energy conservation bonds:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 163,781	\$ 9,418	\$ 173,199

School Bus Notes

The District has issued notes in the amount of \$340,000 for the purchase of school buses. This financing is authorized by the Ohio Revised Code Section 133.15A and Ohio Revised Code Section 3327.08. The notes mature in 2007, with an interest rate of 5.38%.

The following is a summary of the future debt service requirements to maturity for the school bus notes:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 41,000	\$ 4,579	\$ 45,579
2007	43,000	2,365	45,365
Total	\$ 84,000	\$ 6,944	\$ 90,944

School Facilities Construction and Improvement Notes

On December 22, 2004, the District issued \$3,000,000 in notes payable to finance various District building improvements. The notes mature December 21, 2005, and bear an interest rate of 2.75%.

State Construction Loan

In 1991, the District received a \$3,816,425 interest free loan from the State of Ohio for the construction of classroom facilities. Pursuant to changes to Section 3318.082 ORC and Section 3318.06 as amended, the District may retain half of the half-mill locally for maintenance of classroom facilities constructed or renovated if the District's adjusted valuation per pupil is greater than the statewide median adjusted valuation per pupil. The District retained half of the half-mill locally as per the amendment. The state loan is exempt from debt limitations. Senate Bill 272, which became effective on September 14, 2000, relieved the District of making future payments on this loan.

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State Laws. Only administrative and support personnel who are under a full year contract (11 and 12 months) are eligible for vacation time. The administrators accumulate vacation based upon the following schedule:

<u>Eleven Month Administrators</u>		<u>Twelve Month Administrators</u>	
Years Service	Vacation Days	Years Service	Vacation Days
0 - 15	15	0 - 15	20
16 - beyond	20	16 - beyond	25

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 12 - COMPENSATED ABSENCES - (Continued)

One to ten days may be carried over per year without Board approval up to a total of 35 days. Additional days carried over require Board approval.

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Classified employees may carry one to ten days over per year without Board approval to a total of twenty days. Additional days carried over require Board approval.

The classified personnel accumulate vacation based on the following schedule:

Years of Service	Vacation Days
0 - 5	10
6 - 10	12
11 - 15	15
16 - beyond	20

Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for all employees is 210 days.

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement if the employee has been employed by the District for a minimum of ten consecutive years at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to forty-five days.

Any employee receiving separation severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to forty-five days.

For certified and classified employees, separation severance is paid to each employee upon resignation from the District at a per diem rate of the annual salary at the time of retirement if the employee has been employed by the District for a minimum of fifteen consecutive years at the time of retirement.

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

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 the employees and natural disasters. During fiscal year 2005, the District has contracted with commercial carriers for property and general liability insurance.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 13 - RISK MANAGEMENT - (Continued)

The District maintains replacement cost insurance on buildings and contents. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate. The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

B. Worker's Compensation

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. 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 Plans selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

C. Health Insurance

The District has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs. This self-insurance fund was established for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the general fund, food service and certain special revenue funds (grants). Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier. Effective July 1, 1997, the district terminated the independent carrier full indemnity insurance for basic medical and prescription drug coverage and joined the South Central Ohio Insurance Consortium.

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred by not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$188,614, at June 30, 2005.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 13 - RISK MANAGEMENT - (Continued)

A summary of changes in self-insurance claims for the year ended June 30, 2005:

	<u>2005</u>	<u>2004</u>
Claim Liabilities at Beginning of Year	\$ 174,488	\$ 193,753
Incurred Claims	2,047,230	2,106,973
Claims Paid	<u>(2,033,104)</u>	<u>(2,126,238)</u>
Claim Liabilities at End of year	<u>\$ 188,614</u>	<u>\$ 174,488</u>

SCOIC currently includes nine member school districts and governmental entities. Contributions are determined by the consortium’s Board of Directors and are remitted monthly to the consortium’s fiscal agent, who then pays all incurred claims. Thus actual cash “reserves” are held by the fiscal agent.

EV Benefits, a third party administrator, services all health/medical claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of \$50,000 and \$3,000,000 lifetime maximum, per employee consortium wide.

Settlements have not exceeded coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

A. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. The adequacy of the contribution rates is determined annually. The District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$391,693, \$342,970 and \$320,559, respectively; 49.01% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$199,740 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLAN - (Continued)

B. 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,453,028, \$1,317,061, and \$1,190,707, respectively; 82.35% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$256,518 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$41,337 made by the District and \$20,792 made by plan members.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLAN - (Continued)

C. Social Security System

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

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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 the 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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$103,788 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$141,354 during the 2005 fiscal year.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as "fund reclassifications".

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 393,363
Net adjustment for revenue accruals	1,247,394
Net adjustment for expenditure accruals	252,544
Net adjustment for other sources/uses	(88,015)
Adjustment for encumbrances	<u>384,513</u>
GAAP basis	<u>\$ 2,189,799</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2005.

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

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

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

The District is not a party to legal proceedings at June 30, 2005.

C. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding 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 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2004	\$ (1,287,511)	\$ -
Current year set-aside requirement	367,525	367,525
Current year offsets	-	(32,500,000)
Qualifying disbursements	<u>(720,705)</u>	<u>-</u>
Total	<u>\$ (1,640,691)</u>	<u>\$ (32,132,475)</u>
Balance carried forward to FY 2006	<u>\$ (1,640,691)</u>	<u>\$ (32,132,475)</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero. The negative amount is therefore presented as being carried forward to the next fiscal year.

NOTE 19 - SUBSEQUENT EVENTS

In November 2005, the District retired the school facilities construction and improvement notes for \$3,000,000 and issued bond anticipation notes in the amount of \$3,370,000.

CANAL WINCHESTER LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A), (B) Food Donation	10.550	N/A	\$ -	\$ 71,375	\$ -	\$ 71,375
(A), (C) National School Lunch Program	10.555	046946-LLP4-2004	40,426		40,426	
(A), (C) National School Lunch Program	10.555	046946-LLP4-2005	105,255		105,255	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>145,681</u>	<u>71,375</u>	<u>145,681</u>	<u>71,375</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I Grants to Local Educational Agencies	84.010	046946-C1S1-2004	2,054		21,915	
Title I Grants to Local Educational Agencies	84.010	046946-C1S1-2005	266,842		249,395	
Total Title I Grants to Local Educational Agencies			<u>268,896</u>		<u>271,310</u>	
(F) Special Education_Grants to States	84.027	046946-6BSF-2003-P	(1,397)		-	
Special Education_Grants to States	84.027	046946-6BSF-2004	88,811		27,507	
Special Education_Grants to States	84.027	046946-6BSF-2005	443,499		421,365	
Total Special Education_Grants to States			<u>530,913</u>		<u>448,872</u>	
Safe and Drug-Free Schools and Communities_State Grants	84.186	046946-DRS1-2004	63		-	
Safe and Drug-Free Schools and Communities_State Grants	84.186	046946-DRS1-2005	11,676		11,608	
Total Safe and Drug-Free Schools and Communities_State Grants			<u>11,739</u>		<u>11,608</u>	
(E) State Grants for Innovative Programs	84.298	046946-C2S1-2004	(3,882)		311	
State Grants for Innovative Programs	84.298	046946-C2S1-2005	15,039		13,430	
Total State Grants for Innovative Programs			<u>11,157</u>		<u>13,741</u>	
(E) Education Technology State Grants	84.318	046946-TJS1-2004	(654)		-	
Education Technology State Grants	84.318	046946-TJS1-2005	5,990		5,304	
Total Education Technology Grant Funds			<u>5,336</u>		<u>5,304</u>	
Advanced Placement Program	84.330	046946-AVS1-2004	52		52	
Advanced Placement Program	84.330	046946-AVS1-2005	364		364	
Total Advanced Placement Program			<u>416</u>		<u>416</u>	
Improving Teacher Quality State Grants	84.367	046946-TRS1-2004	10,880		8,574	
Improving Teacher Quality State Grants	84.367	046946-TRS1-2005	46,469		40,884	
Total Improving Teacher Quality State Grants			<u>57,349</u>		<u>49,458</u>	
Total U.S. Department of Education			<u>885,442</u>		<u>800,709</u>	
Total Federal Financial Assistance			<u>\$ 1,031,123</u>	<u>\$ 71,375</u>	<u>\$ 946,390</u>	<u>\$ 71,375</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs
- (B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis
- (D) This schedule was prepared on the cash basis of accounting.
- (E) This amount was carried over to FY 2005.
- (F) Amount repaid to the Ohio Department of Education based on expiration of period of availability

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Rd. West
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Telephone 614.846.1899
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Canal Winchester Local School District
290 Washington Street
Canal Winchester, Ohio 43110

We have audited basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Canal Winchester Local School District, Franklin County, (the “District”) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District’s basic financial statements and have issued our report thereon dated October 28, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. In addition, the District has presented a restatement for fund reclassification, capital assets and capital appreciation bonds, which is described in more detail in Note 3. 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated October 28, 2005.

Board of Education
Canal Winchester Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Canal Winchester Local School District in a separate letter dated October 28, 2005.

This report is intended solely for the information of the Board and management of the Canal Winchester Local School District, 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 "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
October 28, 2005

JULIAN & GRUBE, INC.

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Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Board of Education
Canal Winchester Local School District
290 Washington Street
Canal Winchester, Ohio 43110

Compliance

We have audited the compliance of Canal Winchester Local School District, Franklin County (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 its major federal program for the fiscal year ended June 30, 2005. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District’s management. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 of America; and *OMB Circular A-133, Audit 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 on the District’s compliance with those requirements.

Board of Education
Canal Winchester Local School District

In our opinion, the Canal Winchester Local School District, Franklin County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

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, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 of the Board of Education and management of the Canal Winchester Local School District, 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.



Julian & Grube, Inc.
October 28, 2005

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Special Education: Grants to States, CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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Betty Montgomery**

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**CANAL WINCHESTER LOCAL SCHOOL DISTRICT
FRANKLIN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**