

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***



Mary Taylor, CPA
Auditor of State

Board of Education
Mansfield City School District
53 West Fourth Street
Mansfield, Ohio 44902

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 16, 2007

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MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education
Mansfield City School District
53 West 4th Street
Mansfield, Ohio 44902

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Mansfield City School District, Richland County, Ohio, as of June 30, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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.

Independent Auditor's Report
Mansfield City School District
Page Two

The management's discussion and analysis 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 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.
February 23, 2007

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

The discussion and analysis of the Mansfield City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review 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 2006 are as follows:

- In total, net assets of governmental activities decreased \$3,716,956 which represents a 5.88% decrease from 2005.
- General revenues accounted for \$52,852,965 in revenue or 76.18% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$16,523,080 or 23.82% of total revenues of \$69,376,045.
- The District had \$73,093,001 in expenses related to governmental activities; only \$16,523,080 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$52,852,965 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$49,011,525 in revenues and \$52,523,587 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance, decreased \$3,512,062 from \$613,055 to a deficit balance of \$2,899,007.
- The debt service fund had \$18,558,580 in revenues and other financing sources and \$17,631,473 in expenditures and other financing uses. The debt service fund's fund balance increased \$927,107 from \$9,309,016 to \$10,236,123.

Using the Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term 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. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund 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. The District's only major governmental funds are the general fund and debt service fund.

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* than can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for a self-insurance program for employee health benefits. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. 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 26-61 of this report.

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 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 49,608,590	\$ 51,082,470
Capital assets, net	<u>60,023,941</u>	<u>62,208,443</u>
Total assets	<u>109,632,531</u>	<u>113,290,913</u>
<u>Liabilities</u>		
Current liabilities	27,278,072	26,071,891
Long-term liabilities	<u>22,848,868</u>	<u>23,996,475</u>
Total liabilities	<u>50,126,940</u>	<u>50,068,366</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	41,669,139	42,578,641
Restricted	20,266,610	20,669,941
Unrestricted (deficit)	<u>(2,430,158)</u>	<u>(26,035)</u>
Total net assets	<u>\$ 59,505,591</u>	<u>\$ 63,222,547</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$59,505,591.

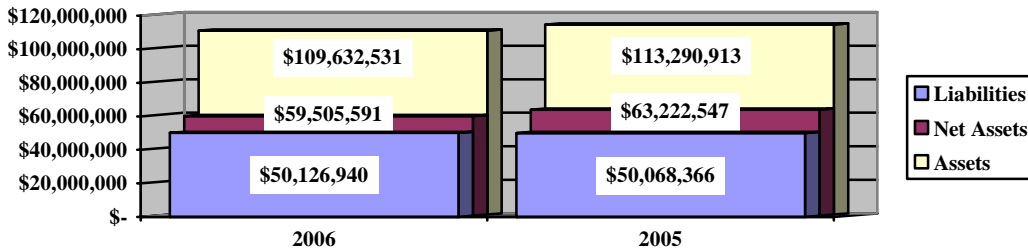
**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

At year-end, capital assets represented 54.75% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$41,669,139. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$20,266,610, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$2,430,158.

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues:		
Charges for services and sales	\$ 3,619,382	\$ 2,721,655
Operating grants and contributions	12,845,458	15,212,583
Capital grants and contributions	58,240	42,000
General revenues:		
Property taxes	22,405,570	21,757,668
Grants and entitlements	28,954,130	25,358,807
Investment earnings	937,934	702,198
Other	555,331	632,666
Total revenues	<u>\$ 69,376,045</u>	<u>\$ 66,427,577</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 23,986,557	\$ 24,492,934
Special	8,475,347	9,424,601
Vocational	1,616,038	1,651,754
Adult	615,272	323,082
Other	5,544,079	3,120,453
Support services:		
Pupil	3,793,081	3,166,101
Instructional staff	5,406,579	4,462,745
Board of education	29,475	18,457
Administration	4,733,555	5,522,069
Fiscal	1,197,937	1,071,512
Business	1,165,039	1,073,676
Operations and maintenance	8,125,852	8,919,809
Pupil transportation	2,044,148	2,097,880
Central	1,503,783	1,643,255
Operations of non-instructional services	492,627	819,225
Food service operations	2,558,271	2,706,279
Uniform Supplies	-	177,892
Adult Education	-	385,576
Extracurricular activities	975,680	966,999
Interest and fiscal charges	<u>829,681</u>	<u>1,108,403</u>
Total expenses	<u>73,093,001</u>	<u>73,152,702</u>
Change in net assets	(3,716,956)	(6,725,125)
Net assets at beginning of year	<u>63,222,547</u>	<u>69,947,672</u>
Net assets at end of year	<u>\$ 59,505,591</u>	<u>\$ 63,222,547</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$3,716,956. Total governmental expenses of \$73,093,001 were offset by program revenues of \$16,523,080 and general revenues of \$52,852,965. Program revenues supported 22.61% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 74.03% of total governmental revenue.

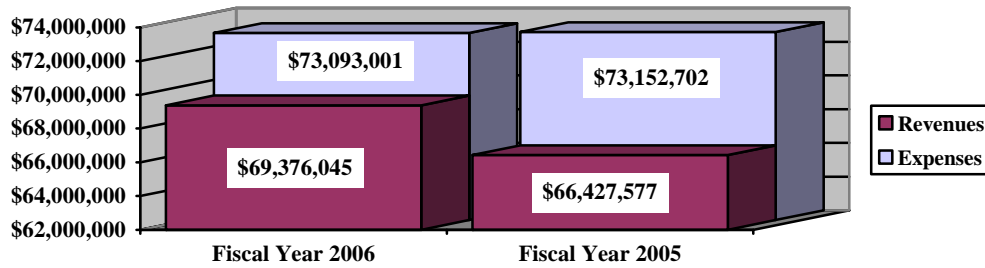
The largest expense of the District is for instructional programs. Instruction expenses totaled \$40,237,293 or 55.05% of total governmental expenses for fiscal 2006.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.

Governmental Activities - Revenues and Expenses



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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

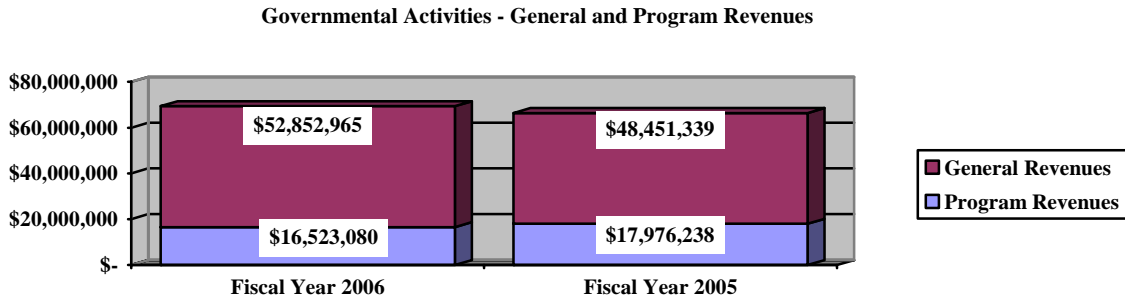
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 23,986,557	\$ 17,823,438	\$ 24,492,934	\$ 18,976,422
Special	8,475,347	6,283,326	9,424,601	4,315,672
Vocational	1,616,038	1,460,826	1,651,754	1,512,438
Adult	615,272	129,703	323,082	2,627
Other	5,544,079	5,304,891	3,120,453	3,120,453
Support services:				
Pupil	3,793,081	3,640,474	3,166,101	3,083,150
Instructional staff	5,406,579	2,346,814	4,462,745	2,665,773
Board of education	29,475	29,475	18,457	18,457
Administration	4,733,555	4,272,967	5,522,069	4,970,546
Fiscal	1,197,937	1,122,721	1,071,512	982,032
Business	1,165,039	1,165,039	1,073,676	1,073,676
Operations and maintenance	8,125,852	8,000,472	8,919,809	8,839,511
Pupil transportation	2,044,148	1,978,367	2,097,880	1,809,135
Central	1,503,783	1,380,900	1,643,255	1,581,088
Operations of non-instructional services	492,627	55,466	819,225	319,672
Food service operations	2,558,271	238,536	2,706,279	135,020
Uniform supplies	-	-	177,892	72,418
Adult education	-	-	385,576	1,611
Extracurricular activities	975,680	506,825	966,999	588,360
Interest and fiscal charges	829,681	829,681	1,108,403	1,108,403
Total expenses	<u>\$ 73,093,001</u>	<u>\$ 56,569,921</u>	<u>\$ 73,152,702</u>	<u>\$ 55,176,464</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 77.05% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.39%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$16,071,008, which is lower than last year's total of \$19,643,848. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ (2,899,007)	\$ 613,055	\$ (3,512,062)
Debt Service	10,236,123	9,309,016	927,107
Other Governmental	<u>8,733,892</u>	<u>9,721,777</u>	<u>(987,885)</u>
Total	<u>\$16,071,008</u>	<u>\$ 19,643,848</u>	<u>\$ (3,572,840)</u>

General Fund

The District's general fund balance decreased \$3,512,062. The decrease in fund balance can be attributed to increasing revenues being less than increasing expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 17,311,306	\$16,838,701	2.81 %
Tuition	755,327	1,416,209	(46.67) %
Earnings on investments	749,843	601,600	24.64 %
Intergovernmental	28,366,278	27,734,638	2.28 %
Other revenues	<u>1,828,771</u>	<u>260,623</u>	601.69 %
Total	<u>\$ 49,011,525</u>	<u>\$46,851,771</u>	4.61 %
<u>Expenditures</u>			
Instruction	\$ 30,786,300	\$29,917,572	2.90 %
Support services	21,074,418	20,920,600	0.74 %
Extracurricular activities	<u>537,154</u>	<u>455,356</u>	17.96 %
Total	<u>\$ 52,397,872</u>	<u>\$51,293,528</u>	2.15 %

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$48,537,307, which approximates the original budgeted revenues estimate of \$47,859,199. Final budgeted revenues and other financing sources for fiscal 2006 was \$48,537,307 and actual revenues and other financing sources for fiscal 2006 was \$48,475,887.

General fund original appropriations (appropriated expenditures including other financing uses) of \$52,506,518 were increased to \$53,214,170 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$52,980,613, which was \$233,557 below the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$60,023,941 invested in land, land improvements, buildings and improvements, furniture and equipment vehicles and textbooks. This entire amount is reported in governmental activities.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2006</u>	<u>2005</u>
Land	\$ 5,181,759	\$ 5,181,759
Land improvements	1,746,515	1,874,108
Building and improvements	48,920,515	50,334,470
Furniture and equipment	2,492,191	2,869,851
Vehicles	790,074	924,588
Textbooks	<u>892,887</u>	<u>1,023,667</u>
Total	<u>\$60,023,941</u>	<u>\$62,208,443</u>

The overall decrease in capital assets of \$2,184,502 is due to depreciation expense of \$2,202,180 exceeding capital outlay of \$17,678 in the fiscal year. The increase in capital outlay is a result of acquisition of miscellaneous equipment and a land improvement.

See Note 8 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2006, the District had \$4,324,802 in general obligation bonds and \$14,076,024 in capital appreciation bonds. Of this total, \$1,270,000 is due within one year and \$17,130,826 is due in greater than one year. The following table summarizes the notes outstanding.

Outstanding Debt, at Year End		
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 4,324,802	\$ 19,629,802
Capital appreciation bonds	<u>14,076,024</u>	<u>-</u>
Total	<u>\$ 18,400,826</u>	<u>\$ 19,629,802</u>

At June 30, 2006, the District's overall legal debt margin was \$39,466,498 with an unvoted debt margin of \$529,236.

See Note 9 to the basic financial statements for detail on the District's debt administration.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

Current Financial Related Activities

The District continues to receive support from the residents of the District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the District was an Emergency Levy that was originally passed in 1993. This Emergency Levy has been renewed two times since that date. The last renewal of this levy was in May 2003. The residents of the District also passed a continuing Permanent Improvement Levy in 1996. The Board submitted a new operating levy to the residents of the District in November 2005, but the levy was defeated.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 31.08% of revenues for governmental activities for the District in fiscal year 2006.

The District has also been affected by increased delinquency rates and changes in personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched longer than the four years it was originally planned for. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike the District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court. The District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements if the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the District. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mansfield City School District, 53 West Fourth Street, Mansfield, Ohio 44902.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Primary Government</u>	<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Mansfield Enhancement Academy</u>	<u>Interactive Media and Construction, Inc.</u>
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 20,898,853	\$ 496,695	\$ 123,655
Receivables:			
Taxes	25,739,294	-	-
Accounts	25,530	-	-
Intergovernmental.	2,423,068	-	-
Accrued interest	161,952	-	-
Materials and supplies inventory	155,894	-	-
Unamortized bond issue costs.	203,999	-	-
Capital assets:			
Land	5,181,759	-	-
Depreciable capital assets, net.	54,842,182	-	17,830
Capital assets, net.	<u>60,023,941</u>	<u>-</u>	<u>17,830</u>
Total assets.	<u>109,632,531</u>	<u>496,695</u>	<u>141,485</u>
Liabilities:			
Accounts payable.	304,106	839	14,217
Contracts payable.	158,029	-	-
Accrued wages and benefits	5,487,018	-	-
Pension obligation payable.	1,442,725	-	-
Intergovernmental payable	1,000,382	-	-
Deferred revenue	17,617,962	-	-
Accrued interest payable	47,850	-	-
Claims payable	1,220,000	-	-
Long-term liabilities:			
Due within one year.	1,943,384	-	-
Due in more than one year	20,905,484	-	-
Total liabilities	<u>50,126,940</u>	<u>839</u>	<u>14,217</u>
Net Assets:			
Invested in capital assets, net of related debt.	41,669,139	-	17,830
Restricted for:			
Capital projects	6,634,663	-	-
Debt service.	10,625,471	-	-
Classroom facilities maintenance.	1,362,654	-	-
Locally funded programs	43,851	-	-
State funded programs	165,776	-	-
Federally funded programs	1,188,967	63,294	-
Student activities	52,022	-	-
Public school support	166,200	-	-
Other purposes	27,006	-	-
Unrestricted (deficit)	<u>(2,430,158)</u>	<u>432,562</u>	<u>109,438</u>
Total net assets	<u>\$ 59,505,591</u>	<u>\$ 495,856</u>	<u>\$ 127,268</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 23,986,557	\$ 2,113,695	\$ 4,049,424	\$ -
Special	8,475,347	103,223	2,088,798	-
Vocational	1,616,038	-	155,212	-
Adult.	615,272	172,582	312,987	-
Other	5,544,079	93,720	145,468	-
Support services:				
Pupil.	3,793,081	29,360	123,247	-
Instructional staff	5,406,579	3,334	3,056,431	-
Board of education	29,475	-	-	-
Administration.	4,733,555	12,263	448,325	-
Fiscal.	1,197,937	-	75,216	-
Business.	1,165,039	-	-	-
Operations and maintenance	8,125,852	13,969	111,411	-
Pupil transportation.	2,044,148	51,406	14,375	-
Central	1,503,783	-	64,643	58,240
Operation of non-instructional services:				
Food service operations	2,558,271	550,693	1,769,042	-
Other non-instructional services	492,627	6,666	430,495	-
Extracurricular activities.	975,680	468,471	384	-
Interest and fiscal charges	829,681	-	-	-
Total governmental activities	<u>\$ 73,093,001</u>	<u>\$ 3,619,382</u>	<u>\$ 12,845,458</u>	<u>\$ 58,240</u>
Component Units:				
Mansfield Enhancement Academy.	\$ 1,054,373	\$ -	\$ 305,000	\$ -
Interactive Media and Construction, Inc.	825,870	-	153,000	-
Totals	<u>\$ 1,880,243</u>	<u>\$ -</u>	<u>\$ 458,000</u>	<u>\$ -</u>

General Revenues:

Property taxes levied for:
General purposes
Special revenue
Debt service.
Capital projects
Grants and entitlements not restricted to specific programs.
Investment earnings
Miscellaneous
Total general revenues.
Change in net assets
Net assets at beginning of year.
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets		
Primary Government	Component Units	
Governmental Activities	Mansfield Enhancement Academy	Interactive Media and Construction, Inc.
\$ (17,823,438)	\$ -	\$ -
(6,283,326)	-	-
(1,460,826)	-	-
(129,703)	-	-
(5,304,891)	-	-
(3,640,474)	-	-
(2,346,814)	-	-
(29,475)	-	-
(4,272,967)	-	-
(1,122,721)	-	-
(1,165,039)	-	-
(8,000,472)	-	-
(1,978,367)	-	-
(1,380,900)	-	-
(238,536)	-	-
(55,466)	-	-
(506,825)	-	-
(829,681)	-	-
(56,569,921)	-	-
-	(749,373)	-
-	-	(672,870)
-	(749,373)	(672,870)
18,611,038	-	-
309,905	-	-
2,307,479	-	-
1,177,148	-	-
28,954,130	1,107,690	797,222
937,934	12,578	2,916
555,331	-	-
52,852,965	1,120,268	800,138
(3,716,956)	370,895	127,268
63,222,547	124,961	-
\$ 59,505,591	\$ 495,856	\$ 127,268

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 387,407	\$ 9,997,631	\$ 9,777,936	\$ 20,162,974
Receivables:				
Taxes	21,806,520	2,205,635	1,727,139	25,739,294
Accounts	20,794	-	4,736	25,530
Intergovernmental	64,870	-	2,358,198	2,423,068
Accrued interest	161,952	-	-	161,952
Interfund receivable	19,200	-	-	19,200
Due from other funds	353,153	-	-	353,153
Materials and supplies inventory	125,901	-	29,993	155,894
Restricted assets:				
Equity in pooled cash and cash equivalents	27,006	-	-	27,006
Total assets	<u>\$ 22,966,803</u>	<u>\$ 12,203,266</u>	<u>\$ 13,898,002</u>	<u>\$ 49,068,071</u>
Liabilities:				
Accounts payable	\$ 135,330	\$ -	\$ 168,776	\$ 304,106
Contracts payable	-	-	158,029	158,029
Accrued wages and benefits	4,287,526	-	1,199,492	5,487,018
Compensated absences payable	268,236	-	16,907	285,143
Pension obligation payable	1,106,708	-	336,017	1,442,725
Intergovernmental payable	849,795	3,566	147,021	1,000,382
Interfund payable	-	-	19,200	19,200
Due to other funds	-	-	353,153	353,153
Deferred revenue	19,218,215	1,963,577	2,765,515	23,947,307
Total liabilities	<u>25,865,810</u>	<u>1,967,143</u>	<u>5,164,110</u>	<u>32,997,063</u>
Fund Balances:				
Reserved for encumbrances	651,310	-	1,467,785	2,119,095
Reserved for materials and supplies inventory	125,901	-	29,993	155,894
Reserved for property tax unavailable for appropriation	1,441,491	147,674	115,341	1,704,506
Reserved for debt service	-	10,088,449	-	10,088,449
Reserved for school bus purchase	27,006	-	-	27,006
Unreserved, undesignated (deficit) reported in:				
General fund	(5,144,715)	-	-	(5,144,715)
Special revenue funds	-	-	2,088,752	2,088,752
Capital projects funds	-	-	5,032,021	5,032,021
Total fund balances (deficit)	<u>(2,899,007)</u>	<u>10,236,123</u>	<u>8,733,892</u>	<u>16,071,008</u>
Total liabilities and fund balances	<u>\$ 22,966,803</u>	<u>\$ 12,203,266</u>	<u>\$ 13,898,002</u>	<u>\$ 49,068,071</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 16,071,008
<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.		60,023,941
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 5,046,286	
Intergovernmental revenue	1,231,869	
Accrued interest	51,190	
Total		6,329,345
Unamortized bond issuance costs are not recognized in the funds		203,999
Unamortized deferred charges are not recognized in the funds		1,081,634
Unamortized premiums on bond issuance is not recognized in the funds.		(1,285,633)
An internal service fund is used by management to charge the costs of hospital/medical insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(511,127)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(3,958,900)	
General obligation bonds payable	(18,400,826)	
Accrued interest payable	(47,850)	
Total		(22,407,576)
Net assets of governmental activities		\$ 59,505,591

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/(DEFICIT)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 17,311,306	\$ 2,534,427	\$ 1,339,619	\$ 21,185,352
Tuition.	755,327	-	94,672	849,999
Transportation fees	35,192	-	250	35,442
Charges for services	-	-	549,520	549,520
Earnings on investments.	749,843	-	136,901	886,744
Extracurricular.	-	-	462,432	462,432
Classroom materials and fees	-	-	99,557	99,557
Other local revenues.	1,793,579	10,902	373,282	2,177,763
Intergovernmental - state	28,099,340	457,591	4,707,496	33,264,427
Intergovernmental - federal	266,938	-	8,381,084	8,648,022
Total revenue	<u>49,011,525</u>	<u>3,002,920</u>	<u>16,144,813</u>	<u>68,159,258</u>
Expenditures:				
Current:				
Instruction:				
Regular	18,270,892	-	4,526,640	22,797,532
Special.	5,934,000	-	2,167,376	8,101,376
Vocational.	1,428,937	-	157,144	1,586,081
Adult/Continuing	402	-	599,858	600,260
Other.	5,152,069	-	357,738	5,509,807
Support services:				
Pupil.	3,260,158	-	129,835	3,389,993
Instructional staff	2,509,576	-	3,080,796	5,590,372
Board of education	29,475	-	-	29,475
Administration.	4,274,872	-	315,761	4,590,633
Fiscal	1,017,445	65,006	107,480	1,189,931
Business	1,151,535	-	-	1,151,535
Operations and maintenance.	5,884,099	-	1,916,525	7,800,624
Pupil transportation	1,745,560	-	106,055	1,851,615
Central.	1,201,698	-	324,433	1,526,131
Operation of non-instructional services:				
Food service operations	-	-	2,489,124	2,489,124
Other non-instructional services.	-	-	480,611	480,611
Extracurricular activities.	537,154	-	441,975	979,129
Facilities acquisition and construction	-	-	57,062	57,062
Debt service:				
Principal retirement	-	1,275,000	-	1,275,000
Interest and fiscal charges	-	735,807	-	735,807
Total expenditures	<u>52,397,872</u>	<u>2,075,813</u>	<u>17,258,413</u>	<u>71,732,098</u>
Excess of revenues over (under) expenditures	<u>(3,386,347)</u>	<u>927,107</u>	<u>(1,113,600)</u>	<u>(3,572,840)</u>
Other financing sources (uses):				
Transfers in	-	-	131,792	131,792
Transfers (out).	(125,715)	-	(6,077)	(131,792)
Sale of bonds	-	14,215,000	-	14,215,000
Accrued interest on sale of bonds	-	1,340,660	-	1,340,660
Payment to refunded bond escrow agent.	-	(15,342,930)	-	(15,342,930)
Bond issue costs	-	(212,730)	-	(212,730)
Total other financing sources (uses)	<u>(125,715)</u>	<u>-</u>	<u>125,715</u>	<u>-</u>
Net change in fund balances	<u>(3,512,062)</u>	<u>927,107</u>	<u>(987,885)</u>	<u>(3,572,840)</u>
Fund balances at beginning of year	<u>613,055</u>	<u>9,309,016</u>	<u>9,721,777</u>	<u>19,643,848</u>
Fund balances (deficit) at end of year	<u>\$ (2,899,007)</u>	<u>\$ 10,236,123</u>	<u>\$ 8,733,892</u>	<u>\$ 16,071,008</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND 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, 2006

Net change in fund balances - total governmental funds	\$	(3,572,840)
<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 depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 17,678	
Current year depreciation	<u>(2,202,180)</u>	
Total		(2,184,502)
Proceeds of refunding bonds are recorded as revenue in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		(14,215,000)
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		(1,285,633)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		203,999
Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		1,081,634
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	1,220,218	
Interest	51,190	
Intergovernmental	<u>(54,621)</u>	
Total		1,216,787
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		15,490,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being reported on the statement of activities:		
Increase in accrued interest payable	(47,850)	
Accreted interest on capital appreciation bonds	<u>(46,024)</u>	
Total		(93,874)
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.		407,773
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		<u>(765,300)</u>
Change in net assets of governmental activities	\$	<u><u>(3,716,956)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND 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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 16,448,503	\$ 16,681,559	\$ 16,681,559	\$ -
Tuition.	945,832	959,233	959,233	-
Transportation.	28,177	28,576	28,576	-
Earnings on investments.	604,861	613,431	613,431	-
Other local revenues	1,485,746	1,506,797	1,506,797	-
Intergovernmental - state	27,759,048	28,152,361	28,152,361	-
Intergovernmental - federal.	263,209	266,938	266,938	-
Total revenue	<u>47,535,376</u>	<u>48,208,895</u>	<u>48,208,895</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	18,381,416	18,629,150	18,507,470	121,680
Special.	5,962,067	6,042,420	6,022,874	19,546
Vocational.	1,429,250	1,448,513	1,443,827	4,686
Other.	5,096,713	5,165,404	5,148,695	16,709
Support services:				
Pupil.	3,229,267	3,272,789	3,262,202	10,587
Instructional staff	2,477,652	2,511,044	2,502,921	8,123
Board of education	24,087	24,412	24,333	79
Administration.	4,097,013	4,152,230	4,138,798	13,432
Fiscal	953,670	966,523	963,396	3,127
Business	1,095,318	1,110,080	1,106,489	3,591
Operations and maintenance.	6,050,410	6,131,954	6,112,118	19,836
Pupil transportation	1,738,563	1,761,994	1,756,294	5,700
Central.	1,323,476	1,341,313	1,336,974	4,339
Extracurricular activities.	519,014	526,009	524,307	1,702
Total expenditures	<u>52,377,916</u>	<u>53,083,835</u>	<u>52,850,698</u>	<u>233,137</u>
Excess of revenues over (under) expenditures.	<u>(4,842,540)</u>	<u>(4,874,940)</u>	<u>(4,641,803)</u>	<u>233,137</u>
Other financing sources (uses):				
Refund of prior year expenditure.	259,214	262,887	262,887	-
Transfers in.	60,562	61,420	-	(61,420)
Transfers (out)	(124,446)	(126,123)	(125,715)	408
Advances (out)	(4,156)	(4,212)	(4,200)	12
Sale of capital assets.	4,047	4,105	4,105	-
Total other financing sources (uses)	<u>195,221</u>	<u>198,077</u>	<u>137,077</u>	<u>(61,000)</u>
Net change in fund balance	(4,647,319)	(4,676,863)	(4,504,726)	172,137
Fund balance at beginning of year.	4,054,593	4,054,593	4,054,593	-
Prior year encumbrances appropriated	623,770	623,770	623,770	-
Fund balance at end of year	<u>\$ 31,044</u>	<u>\$ 1,500</u>	<u>\$ 173,637</u>	<u>\$ 172,137</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS/(DEFICIT)
PROPRIETARY FUND
JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	<u>\$ 708,873</u>
Total assets	<u>708,873</u>
Liabilities:	
Claims payable	<u>1,220,000</u>
Total liabilities	<u>1,220,000</u>
Net assets:	
Unrestricted (deficit)	<u>(511,127)</u>
Total net assets (deficit).	<u><u>\$ (511,127)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS/(DEFICIT)
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 7,891,738
Total operating revenues	<u>7,891,738</u>
Operating expenses:	
Claims expense.	7,721,424
Purchased services.	<u>935,614</u>
Total operating expenses	<u>8,657,038</u>
Change in net assets.	(765,300)
Net assets at beginning of year.	<u>254,173</u>
Net assets (deficit) at end of year	<u><u>\$ (511,127)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 7,891,738
Cash payments for claims expense	(7,443,160)
Cash payments for purchased services	<u>(947,668)</u>
Net cash used in operating activities	<u>(499,090)</u>
Net decrease in cash and cash equivalents.	<u>(499,090)</u>
Cash and cash equivalents at beginning of year	<u>1,207,963</u>
Cash and cash equivalents at end of year.	<u><u>\$ 708,873</u></u>
Operating loss	\$ (765,300)
Changes in assets and liabilities:	
(Decrease) in accounts payable.	(12,054)
Increase in claims payable.	<u>278,264</u>
Net cash used in operating activities	<u><u>\$ (499,090)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 26,525	\$ 1,040,767
Total assets.	26,525	\$ 1,040,767
Liabilities:		
Accounts payable.	-	\$ 76,314
Intergovernmental payable	-	916,539
Due to students	-	47,914
Total liabilities	-	\$ 1,040,767
Net Assets:		
Held in trust for scholarships	26,525	
Total net assets	\$ 26,525	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private - Purpose Trust</u>
	<u>Scholarship</u>
Net assets at beginning of year.	\$ 26,525
Net assets at end of year	<u>\$ 26,525</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mansfield City School District (the "District") was 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 city school district as defined by Section 311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2005, was 5,763. The District employs 568 certificated employees, 315 non-certificated employees, and 56 administrators.

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 activities and proprietary fund 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, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the 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; or (4) 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 two component units. The following organizations are described due to their relationship to the District:

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

DISCRETELY PRESENTED COMPONENT UNITS

The Mansfield Enhancement Academy

The Mansfield Enhancement Academy (the "Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Academy is a conversion community school that addresses the needs of students who have met some graduation requirements but have failed to successfully complete all requirements necessary for the attainment of the high school diploma or graduation equivalence diploma. The Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Academy Board of Directors may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Academy, therefore, the financial activity of the Academy are presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 53 West Fourth Street, Mansfield, Ohio 44902.

Interactive Media and Construction, Inc.

The Interactive Media and Construction, Inc. (the "IMAC") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Academy is a conversion community school that is designed for high school students to obtain their high school diploma through a college preparatory curriculum. The Academy provides a challenging curriculum, community/parental support, motivation through career skills and pay for work. The Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Academy Board of Directors may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Academy, therefore, the financial activity of the Academy are presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 53 West Fourth Street, Mansfield, Ohio 44902.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component units can be found in separately issued financial statements.

JOINT VENTURE WITHOUT EQUITY INTEREST

North Central Ohio Computer Cooperative (NCOCC)

The NCOCC is a joint venture among 21 school districts and 3 county educational service centers. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports NCOCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. NCOCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 39, the District does not have an equity interest in NCOCC because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

INSURANCE PURCHASING POOL

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

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

The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available 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 principal, interest and related costs.

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; (b) for food service and uniform school supplies operations; and (c) 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. The District has no enterprise funds. The following is a description of the District's internal service fund.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for a self-insurance program for employee health benefits.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

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's only trust fund is a private-purpose trust which accounts for a scholarship program for students. 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 and deposits held for outside entities.

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 over statement of revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund 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 activity.

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.

The private-purpose trust fund is reported using the economic resources measurement focus. 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. 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, 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, student fees and rentals.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Richland County Budget Commission for rate determination.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. 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 in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

During fiscal year 2006, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$749,843, which includes \$646,867 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

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 which means that the costs of inventory items are recorded as expenditure in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets 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.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

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's capitalization threshold is \$5,000 for general capital assets. 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's life are not capitalized.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	10 - 40 years
Buildings and improvements	10 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	13 years
Textbooks	5 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables" and "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation absences are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments for sick leave.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Unamortized Issuance Cost/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

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.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, 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. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 9.A.

M. 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, materials and supplies inventory, debt service, school bus purchase and property taxes 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.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes consist of monies restricted by state statute for bus purchases (see Note 16).

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

O. 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.

P. 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 for budget stabilization. See Note 16 for additional information regarding set-asides.

Q. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activity between governmental funds are eliminated in the statement of activities.

R. 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. Neither type of transaction occurred during fiscal 2006.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
General	\$ 2,899,007
<u>Nonmajor Governmental Funds</u>	
Food Service	9,126
Public School Preschool	480
Poverty Aid	304,649
Vocational Education	1,146

All 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. These deficit fund balances result from adjustments for accrued liabilities. The deficit balance in the general fund will be eliminated by resources not recognized or recorded at fiscal year-end.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Compliance

The District had negative cash balances in the funds listed below, indicating that revenue from other funds were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes this amount has been reported as a fund liability.

Title VI	\$ 8,157
Reducing Class Size	344,996

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;
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;

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 the State Treasury Asset Reserve of Ohio (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,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year-end, the District had \$5,185 in undeposited cash on hand, which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Investments".

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$(270,707). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$473,036 of the District's bank balance of \$573,036 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FNMA	\$ 3,960,166	\$ 1,980,519	\$ 1,979,647	\$ -	\$ -	\$ -
FHLB	5,862,804	3,964,517	-	-	-	1,898,287
FHLMC	7,731,150	6,747,883	983,267	-	-	-
Repurchase Agreement	4,597,390	4,597,390	-	-	-	-
STAR Ohio	80,157	80,157	-	-	-	-
	<u>\$ 22,231,667</u>	<u>\$ 17,370,466</u>	<u>\$ 2,962,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,898,287</u>

The weighted average maturity of investments is .42 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, unless matched to a specific obligation or debt of the District.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The District's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an 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, 2006:

Investment type	Fair Value	% of Total
FNMA	\$ 3,960,166	17.81
FHLB	5,862,804	26.37
FHLMC	7,731,150	34.78
Repurchase agreement	4,597,390	20.68
STAR Ohio	80,157	0.36
	<u>\$ 22,231,667</u>	<u>100.00</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments 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, 2006:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ (270,707)
Investments	22,231,667
Cash on hand	<u>5,185</u>
Total	<u>\$ 21,966,145</u>
 <u>Cash and investments per Financial Statements</u>	
Governmental activities	\$ 20,898,853
Private-purpose trust fund	26,525
Agency funds	<u>1,040,767</u>
Total	<u>\$ 21,966,145</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 19,200

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

These interfund loans between governmental funds will be eliminated on the government-wide statements. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

B. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 353,153

The primary purpose of the interfund balances is to cover negative cash balances 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, no internal balances at June 30, 2006 are reported on the statement of net assets.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 125,715
Transfers from Nonmajor governmental funds to:	
Nonmajor governmental funds	6,077

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.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. The transfer from nonmajor governmental funds to other nonmajor governmental funds was based on Ohio Department of Education Administrative action.

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, 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.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$1,441,491 in the general fund, \$147,674 in the debt service fund, \$92,698 in the permanent improvement fund, and \$22,643 in the classroom facilities maintenance fund. The amount that was available as advance at June 30, 2005 was \$2,009,748 in the general fund, \$449,736 in the debt service fund, and \$131,397 in the permanent improvement fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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.

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.

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and ther real estate	\$ 389,430,910	80.39	\$ 435,631,410	82.31
Public utility personal	89,540	0.02	85,580	0.02
Tangible personal property	<u>94,919,835</u>	<u>19.59</u>	<u>93,518,580</u>	<u>17.67</u>
Total	<u>\$ 484,440,285</u>	<u>100.00</u>	<u>\$ 529,235,570</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuaition:	\$66.05		\$60.75	

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes	\$ 25,739,294
Accounts	25,530
Intergovernmental	2,423,068
Accrued interest	<u>161,952</u>
Total	<u>\$ 28,349,844</u>

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

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 5,181,759	\$ -	\$ -	\$ 5,181,759
<i>Capital assets, being depreciated:</i>				
Land improvements	2,755,898	8,498	-	2,764,396
Buildings and improvements	66,708,050	-	-	66,708,050
Furniture and equipment	6,518,163	9,180	-	6,527,343
Vehicles	2,104,928	-	-	2,104,928
Textbooks	<u>3,043,838</u>	<u>-</u>	<u>-</u>	<u>3,043,838</u>
Total capital assets, being depreciated	<u>81,130,877</u>	<u>17,678</u>	<u>-</u>	<u>81,148,555</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(881,790)	(136,091)	-	(1,017,881)
Buildings and improvements	(16,373,580)	(1,413,955)	-	(17,787,535)
Furniture and equipment	(3,648,312)	(386,840)	-	(4,035,152)
Vehicles	(1,180,340)	(134,514)	-	(1,314,854)
Textbooks	<u>(2,020,171)</u>	<u>(130,780)</u>	<u>-</u>	<u>(2,150,951)</u>
Total accumulated depreciation	<u>(24,104,193)</u>	<u>(2,202,180)</u>	<u>-</u>	<u>(26,306,373)</u>
Governmental activities capital assets, net	<u>\$ 62,208,443</u>	<u>\$ (2,184,502)</u>	<u>\$ -</u>	<u>\$ 60,023,941</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,106,883
Special	306,564
<u>Support Services:</u>	
Pupil	102,953
Administration	180,300
Operations and maintenance	285,371
Pupil Transportation	134,514
Extracurricular activities	27,937
Other non-instructional services	22,780
Food service operations	<u>34,878</u>
Total depreciation expense	<u>\$ 2,202,180</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
General obligation bonds - 1999	\$ 414,802	\$ -	\$ (90,000)	\$ 324,802	\$ 85,000
General obligation bonds - 2000	19,215,000	-	(15,215,000)	4,000,000	1,000,000
General obligation bonds - 2006	-	14,261,024	(185,000)	14,076,024	185,000
Compensated absences	<u>4,366,673</u>	<u>583,759</u>	<u>(706,389)</u>	<u>4,244,043</u>	<u>673,384</u>
Total governmental activities	<u>\$ 23,996,475</u>	<u>\$ 14,844,783</u>	<u>\$ (16,196,389)</u>	\$ 22,644,869	<u>\$ 1,943,384</u>
Less: deferred charge on refunding				(1,081,634)	
Add: unamortized premium				<u>1,285,633</u>	
Total on statement of net assets				<u>\$ 22,848,868</u>	

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from General Fund and Special Trust, Auxiliary Services, Adult Basic Education, Title VI-B, Vocational Education, Title I, Drug Free grant, Food Service, and Adult Education nonmajor governmental funds.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

- B.** In 1999, the District issued \$874,802 in general obligation bonds for a new high school. The bonds mature in September 2011.

Principal and interest requirements to retire series 1999 general obligation bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2007	\$ 85,000	\$ 9,555	\$ 94,555
2008	80,000	5,720	85,720
2009	80,000	1,920	81,920
2010	32,225	47,775	80,000
2011	25,747	44,253	70,000
2012	<u>21,830</u>	<u>43,170</u>	<u>65,000</u>
Total	<u>\$ 324,802</u>	<u>\$ 152,393</u>	<u>\$ 477,195</u>

- C.** In 2000, the District issued \$24,295,000 in the general obligation bonds for a new high school. The bonds mature in December 2027. During 2006, a portion of the bonds, \$14,215,000, were advance refunded.

Principal and interest requirements to retire series 2000 general obligation bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2007	\$ 1,000,000	\$ 212,000	\$ 1,212,000
2008	1,000,000	156,250	1,156,250
2009	1,000,000	93,750	1,093,750
2010	<u>1,000,000</u>	<u>31,250</u>	<u>1,031,250</u>
Total	<u>\$ 4,000,000</u>	<u>\$ 493,250</u>	<u>\$ 4,493,250</u>

- D.** On July 27, 2005, the District issued general obligation bonds to advance refund a portion of the Series 2000 current interest bonds. The issuance proceeds of \$15,342,930 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. The principal balance of the general obligation refunded bonds at June 30, 2006 was \$14,030,000.

The refunding issue is comprised of both current interest bonds, par value \$13,915,000, and capital appreciation bonds, par value \$300,000. The capital appreciation bonds mature between December 1, 2014 and December 1, 2015 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, 2006 was \$300,000. Total accreted interest of \$46,024 has been included in the statement of activities.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal 2006 on the 2006 series refunding bonds:

	Balance 06/30/05	Additions	Reductions	Balance 06/30/06
Current interest bonds	\$ -	\$ 13,915,000	\$ (185,000)	\$ 13,730,000
Capital appreciation bonds	-	346,024	-	346,024
Total refunding bonds	\$ -	\$ 14,261,024	\$ (185,000)	\$ 14,076,024

The reacquisition price exceeded the net carrying amount of the old debt by \$1,127,930. 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 total debt service payments over the next 23 years by 5.576 % and resulted in an economic gain of \$792,670.

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 185,000	\$ 541,501	\$ 726,501	\$ -	\$ -	\$ -
2008	190,000	535,875	725,875	-	-	-
2009	195,000	530,099	725,099	-	-	-
2010	200,000	524,076	724,076	-	-	-
2011	1,205,000	501,395	1,706,395	-	-	-
2012 - 2016	3,550,000	1,951,594	5,501,594	300,000	1,985,000	2,285,000
2017 - 2021	5,185,000	1,217,737	6,402,737	-	-	-
2022 - 2026	2,635,000	274,593	2,909,593	-	-	-
2027 - 2028	385,000	16,256	401,256	-	-	-
Total	\$ 13,730,000	\$ 6,093,126	\$ 19,823,126	\$ 300,000	\$ 1,985,000	\$ 2,285,000

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$39,466,498 (including available fund balance of \$10,236,123) and an unvoted debt margin of \$529,236.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 10 - OTHER EMPLOYEE BENEFITS - (Continued)

Teachers and classified staff earn sick leave at the rate of one and one-fourth days per month. Classified staff may accumulate up to 255 days of unused sick time if hired before 9/1/93, or 180 days if hired subsequent to 9/1/93. Certified staff may accumulate up to 255 unused sick days. Upon retirement, qualified classified employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 44 days at their per diem rate. Certified employees receive 26% of their accumulated unused sick leave upon retirement.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees in the amount of \$40,000 per employee.

NOTE 11 - 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 employees and natural disasters. The District has a comprehensive property and casualty policy with Indiana Insurance Company. The deductible is \$10,000 per incident on property and \$500 per incident on equipment. All vehicles are also insured with Indiana National Insurance Company and have a \$500 deductible. All board members, administrators, and employees are covered under a school district liability policy with Indiana Insurance Company. The limits of this coverage are \$1,000,000 per claim (claims made) with a \$5,000,000 umbrella. The deductible is \$2,500 per claim. The general liability has a limit of \$1,000,000 for each occurrence and the general aggregate limit it \$2,000,000. The board members and superintendent have a \$20,000 position bond with Travelers Casualty and Surety Insurance Company.

The Treasurer is covered under a bond in the amount of \$200,000 provided by the Cincinnati Insurance Company.

Settled claims exceeded coverage in fiscal years 2005 and 2004. Settled claims did not exceed commercial coverage in 2006. There has been no significant reduction in insurance coverage from the prior year.

B. Workers' Compensation Rating Plan

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

The District has established a limited risk management program for hospital/medical benefits. Premiums are paid into the Self-Insurance Fund by all other funds and are available to pay claims, claim reserves and administrative costs of the program. During fiscal year 2006, a total expense of \$935,614 was incurred in benefits and administrative costs. An excess coverage insurance policy covers individual claims in excess of \$150,000. The liability for unpaid claims of \$1,220,000 reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in the fund's claims liability amount in 2005 and 2006 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 941,736	\$ 7,721,424	\$ (7,443,160)	\$ 1,220,000
2005	925,300	7,095,973	7,079,537	941,736

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$859,363, \$837,416, and \$697,185, respectively; 47.81% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$448,532 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$4,003,487, \$3,758,547, and \$3,867,089, respectively; 83.18% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$673,240 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$9,448 made by the District and \$68,252 made by plan members.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 12 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$307,961 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$395,637 to fund health care benefits, including the surcharge.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs of \$158.751 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The 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);
- (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).

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:

	<u>General Fund</u>
Budget basis	\$ (4,504,726)
Net adjustment for revenue accruals	802,630
Net adjustment for expenditure accruals	(299,291)
Net adjustment for other sources/uses	(262,792)
Adjustment for encumbrances	<u>752,117</u>
GAAP basis	<u>\$ (3,512,062)</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 15 - 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

NOTE 16 - STATUTORY RESERVES

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

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

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside cash balance as of June 30, 2005	\$ (3,160,668)	\$ -
Current year set-aside requirement	855,689	855,689
Qualifying disbursements	(1,079,934)	(2,701,529)
Total	\$ (3,384,913)	\$ (1,845,840)
Balance carried forward to FY 2007	\$ (3,384,913)	\$ -

The District had offsets and qualifying disbursements during the year that reduced the textbooks/instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	\$ 27,006
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**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENT

Subsequent to June 30, 2006, the Office of the Auditor of State has requested that the District be placed in fiscal watch under Section 3316.031 (A)(3), Ohio Revised Code effective December 8, 2006. Based on the District's five-year forecast filed with the Department of Education on November 2, 2006, the District projects, a deficit of \$1,837,000 and \$3,178,000 for the fiscal years ending June 30, 2007 and June 30, 2008.

Effective January 2, 2007, Bart Griffith resigned as Treasurer of the District.

NOTE 18 - INTERACTIVE MEDIA AND CONSTRUCTION, INC.

The Interactive Media and Construction (the "IMAC") is a discretely presented component unit of the Mansfield City School District (the "District"). The District is the Sponsor of the IMAC. The IMAC issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Interactive Media and Construction, Inc. 53 West Fourth Street, Mansfield, Ohio 44902.

A. Significant Accounting Policies

The basic financial statements (BFS) of the IMAC 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 IMAC also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements did not conflict with or contradict GASB pronouncements. The IMAC had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The IMAC elected not to apply these FASB Statements and Interpretations. The IMAC's significant accounting policies are described below.

Basis of Presentation - The IMAC's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statements of revenues, expenses and changes in 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 IMAC's finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The IMAC's basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded upon the accrual basis when the exchange takes place.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 18 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Non-exchange transactions, in which the IMAC receives value without directly giving equal value in return, include grants, entitlements and donations. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the IMAC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the IMAC on a reimbursement basis.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the IMAC's contract with its Sponsor. The contract between the IMAC and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

Cash - Cash held by the IMAC is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. For the period August 30, 2005 through June 30, 2006, the IMAC had no investments.

Capital Assets - All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The IMAC maintains a capitalization threshold of \$5,000. The IMAC does not have any infrastructure.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Furniture is depreciated over seven to twenty years and computers are depreciated over five years.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation through the IMAC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The IMAC first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. The IMAC did not have any restricted net assets at fiscal year end.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity. For the IMAC, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the IMAC. All revenues and expenses not meeting this definition are reported as non-operating.

Intergovernmental Revenue - The IMAC currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which they are earned, essentially the same as the fiscal year.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 18 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 IMAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the IMAC on a reimbursement basis. Federal and State grant revenue for the period August 30, 2005 through June 30, 2006 received by the IMAC was \$153,000.

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

B. Deposits

At June 30, 2006, the carrying amount of the IMAC's deposits was \$123,655. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$24,320 of the IMAC's bank balance of \$124,320 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the IMAC'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 IMAC.

C. Capital Assets

	<u>Balance</u> <u>08/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Capital assets, being depreciated:				
Equipment	\$ -	\$ 18,695	\$ -	\$ 18,695
Less: accumulated depreciation	<u>-</u>	<u>(865)</u>	<u>-</u>	<u>(865)</u>
Capital assets	<u>\$ -</u>	<u>\$ 17,830</u>	<u>\$ -</u>	<u>\$ 17,830</u>

D. Purchased Services

For the period ended June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 367,638
Property rental	60,007
Instructional services	137,708
Travel and meetings	<u>321</u>
Total	<u>\$ 565,674</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 18 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

E. Risk Management

The IMAC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For the period August 30, 2005 through June 30, 2006, the IMAC maintained comprehensive insurance coverage with a private carrier for property and general liability insurance. The IMAC provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

F. Contingencies

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

Litigation - A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Golden Eagle IMAC is not presently determinable.

State Foundation Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

G. Service Agreement

The IMAC is contracting with the Sponsor to manage its operations for school years 2006 through 2011. All services are to be provided on a purchased service or reimbursement basis. The IMAC paid \$746,727 to the Sponsor for educational services during 2006.

H. Related Party

On April 11, 2005, three administrative employees of Mansfield City School District were appointed to the Board of Directors of the IMAC. The IMAC is a general population community school sponsored by the Mansfield City School District. At the June 30, 2006 school year, the IMAC had an enrollment 80 students.

I. Start up Period

The IMAC began its operations on August 30, 2005.

J. Subsequent Event

Effective January 2, 2007, Bart Griffith resigned as Treasurer of the IMAC.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 19 - MANSFIELD ENHANCEMENT ACADEMY

The Mansfield Enhancement Academy (the "Academy") is a discretely presented component unit of the Mansfield City School District (the "District"). The District is the Sponsor of the Academy. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Mansfield Enhancement Academy, 53 West Fourth Street, Mansfield, Ohio 44902.

A. Significant Accounting Policies

The basic financial statements (BFS) of the Academy 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 Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

Basis of Presentation - The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

Measurement Focus - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statements of revenues, expenses and changes in 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 Academy's finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded upon the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Budgetary Process - The Academy shall operate in compliance with an annual budget which must be reviewed and approved by the Academy's Board of Directors. The Academy must maintain financial records in a similar manner to those records of the Sponsor. The Academy complies with the policies and procedures regarding internal financial controls which are apparent under GASB and FASB. Also, the Auditor of State provides financial policy and procedure guidance to the Academies.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 19 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

Cash - Cash held by the Academy is reflected as “Equity in pooled cash and cash equivalents” on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2006, the Academy had no investments.

Capital Assets - All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy increased the capitalization threshold from \$500 to \$5,000 during 2006. Based upon the capitalization threshold change, the Academy does not have any capital assets to report at June 30, 2006. The Academy does not have any infrastructure.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Furniture is depreciated over twenty years and computers are depreciated over five years.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation through the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

Intergovernmental Revenue - The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program and the State Community Schools a Grant through the Ohio Department of Education.

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

B. Accounting and Compliance

The beginning net assets have been restated due to a change in the capitalization threshold. The adjustment for capital assets had the following effect on net assets as previously reported:

Net assets, July 1, 2005	\$163,006
Adjustment for capital assets	<u>(38,045)</u>
Restated net assets, July 1, 2005	<u>\$124,961</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 19 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

C. Deposits

At June 30, 2006, the carrying amount of all Academy deposits was \$496,695. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$398,626 of the Academy's bank balance of \$498,626 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy'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 Academy.

D. Capital Assets

The capital asset balance has been restated due to a change in the capitalization threshold.

	Balance		Restated			Balance
	<u>06/30/05</u>	<u>Restatement</u>	<u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/06</u>
Capital assets, being depreciated:						
Equipment	\$ 47,556	\$ (47,556)	\$ -	\$ -	\$ -	\$ -
Less: accumulated depreciation	<u>(9,511)</u>	<u>9,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 38,045</u>	<u>\$ (38,045)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

E. Purchased Services

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 499,738
Building rental	72,000
Support services	217,473
Travel and meetings	1,615
Communications	<u>390</u>
Total	<u>\$ 791,216</u>

F. Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2006, the Academy maintains comprehensive insurance coverage with a private carrier for property and general liability insurance. The Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 19 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

G. Contingencies

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

Litigation - A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Mansfield Enhancement Academy is not presently determinable.

State Foundation Funding - The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

H. Related Party

On June 9, 2004, three administrative employees of Mansfield City School District were appointed to the Board of Directors of the Academy. The Academy is a general population community school sponsored by the Mansfield City School District. At the June 30, 2006 school year, the Academy had an enrollment 193 students.

I. Service Agreement

The Academy is contracting with the Sponsor to manage its operations for school years 2005 through 2010. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$737,743 in fiscal year 2006 to Sponsor for educational services.

J. Subsequent Event

Effective January 2, 2007, Bart Griffith resigned as Treasurer of the Academy.

SUPPLEMENTAL DATA

**MANSFIELD CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(C) Food Donation	10.550	N/A	\$ -	\$ 305.055	\$ -	\$ 305.055
Total Food Donation Program			-	305.055	-	305.055
Nutrition Cluster:						
(A) (D) School Breakfast Program	10.553	044297-05PU-2005	104,936		104,936	
(A) (D) School Breakfast Program	10.553	044297-05PU-2006	278,113		278,113	
Total School Breakfast Program			383,049		383,049	
(A) (D) National School Lunch Program	10.555	044297-LLP1-2005	45		45	
(A) (D) National School Lunch Program	10.555	044297-LLP1-2006	1,850		1,850	
(A) (D) National School Lunch Program	10.555	044297-LLP4-2005	366,043		366,043	
(A) (D) National School Lunch Program	10.555	044297-LLP4-2006	945,717		945,717	
Total National School Lunch Program			1,313,655		1,313,655	
Total Nutrition Cluster			1,696,704		1,696,704	
Total U.S. Department of Agriculture			1,696,704	305.055	1,696,704	305.055
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
(F) Adult Education State Grant Program	84.002	044297-ABS1-2005	9,867		6,382	
Adult Education State Grant Program	84.002	044297-ABS1-2006	274,954		216,574	
(G) Adult Education State Grant Program	84.002	044297-ABS2-2005	(4,330)		1,969	
Adult Education State Grant Program	84.002	044297-ABS2-2006	2,661		2,661	
Adult Education State Grant Program	84.002	044297-ABS1-2005	-		36,716	
Adult Education State Grant Program	84.002	044297-ABS2-2005	-		1,600	
Adult Education State Grant Program	84.002	044297-ABS2-2006	34,703		30,479	
Total Adult Education State Grant Program			317,855		296,381	
(H) Title I Grants to Local Educational Agencies	84.010	044297-C1S1-2005	161,242		434,287	
Title I Grants to Local Educational Agencies	84.010	044297-C1S1-2006	2,421,558		2,389,356	
(I) Title I Grants to Local Educational Agencies	84.010	044297-C1SD-2005	4,219		34,752	
Title I Grants to Local Educational Agencies	84.010	044297-C1SD-2006	264,138		178,260	
Title I Grants to Local Educational Agencies	84.010	044297-C1SK-2005	150,540		191,985	
Title I Grants to Local Educational Agencies	84.010	044297-C1SK-2006	40,000		32,772	
Title I Grants to Local Educational Agencies	84.010	044297-C1SN-2005	1,614		22,134	
Title I Grants to Local Educational Agencies	84.010	044297-C1SN-2006	-		44,179	
Total Title I Grants to Local Educational Agencies			3,043,311		3,327,725	
Special Education Cluster:						
(B) Special Education Grants to States	84.027	044297-6BSF-2005	209,366		187,300	
(B) Special Education Grants to States	84.027	044297-6BSF-2006	1,585,693		1,346,947	
Total Special Education Grants to States			1,795,059		1,534,247	
(B) Special Education Preschool Grants	84.173	044297-PGS1-2005	20,609		23,056	
(B) Special Education Preschool Grants	84.173	044297-PGS1-2006	47,170		44,974	
Total Special Education Preschool Grants			67,779		68,030	
Total Special Education Cluster			1,862,838		1,602,277	
Vocational Education Basic Grants to States	84.048	044297-ZOC1-2005	-		5,453	
Vocational Education Basic Grants to States	84.048	044297-ZOC1-2006	203,598		202,124	
Total Vocational Education Basic Grants to States			203,598		207,577	
Safe and Drug-Free Schools and Communities National Programs	84.184	044297-T4S1-2004	-		165	
Safe and Drug-Free Schools and Communities National Programs	84.184	044297-T4S1-2005	6,255		3,701	
Total Safe and Drug-Free Schools and Communities National Programs			6,255		3,866	
(J) Safe and Drug-Free Schools and Communities National Programs	84.186	044297-DRS1-2005	(3,538)		5,427	
Safe and Drug-Free Schools and Communities National Programs	84.186	044297-DRS1-2006	42,307		39,436	
Total Safe and Drug-Free Schools and Communities National Programs			38,769		44,863	
Education for Homeless Children and Youth	84.196	044297-HCS1-2006	18,568		15,130	
Total Education for Homeless Children and Youth			18,568		15,130	
(K) Even Start State Educational Agencies	84.213	044297-EVS1-2005	(3,844)		2,952	
Even Start State Educational Agencies	84.213	044297-EVS1-2006	3,844		-	
Total Even Start State Educational Agencies			-		2,952	
Twenty-First Century Community Learning Centers	84.287	044297-T1S1-2005	69,664		76,486	
Twenty-First Century Community Learning Centers	84.287	044297-T1S1-2006	162,549		137,823	
Total Twenty-First Century Community Learning Centers			232,213		214,309	

(continued)

**MANSFIELD CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
(L) State Grants for Innovative Programs	84.298	044297-C2S1-2005	(6,691)		15,340	
State Grants for Innovative Programs	84.298	044297-C2S1-2006	27,066		35,222	
Total State Grants for Innovative Programs			20,375		50,562	
(M) Education Technology State Grants	84.318	044297-TJS1-2005	(20,366)		-	
Education Technology State Grants	84.318	044297-TJS1-2006	57,254		35,135	
(N) Education Technology State Grants	84.318	044297-TJSL-2006	164,185		141,077	
Total Educational Technology State Grants			201,073		176,212	
Advanced Placement Program	84.330	AVTF-2004	416		416	
Total Advancement Placement Program			416		416	
Comprehensive School Reform Demonstration	84.332	044297-RFCC-2005	89,882		98,652	
Comprehensive School Reform Demonstration	84.332	044297-RFCC-2006	169,631		109,384	
(O) Comprehensive School Reform Demonstration	84.332	044297-RKK2-2003	(2,923)		-	
Comprehensive School Reform Demonstration	84.332	044297-RFK2-2004	12,415		19,758	
Comprehensive School Reform Demonstration	84.332	044297-RFK3-2005	5,000		8,111	
Total Comprehensive School Reform Demonstration			274,005		235,905	
(P) Improving Teacher Quality State Grants	84.367	044297-TRS1-2005	25,985		101,669	
(Q) Improving Teacher Quality State Grants	84.367	044297-TRS1-2006	334,497		679,493	
Total Improving Teacher Quality State Grants			360,482		781,162	
Hurricane Education Recovery	84.938	044297-TRS1-2005	-		29,791	
Total Hurricane Education Recovery			-		29,791	
Total U.S. Department of Education			6,579,758		6,989,128	
U.S. DEPARTMENT OF HUMAN SERVICES						
PASSED THROUGH THE						
OHIO DEPARTMENT OF MENTAL RETARDATION AND						
DEVELOPMENTAL DISABILITIES						
State Children's Insurance Program	93.767	N/A	36,494		36,494	
Total State Children's Insurance Program			36,494		36,494	
Medical Assistance Program	93.778	N/A	230,444		230,444	
Total Medical Assistance Program			230,444		230,444	
Total U.S. Department of Human Services			266,938		266,938	
Total Federal Financial Assistance			\$ 8,543,400	\$ 305,055	\$ 8,952,770	\$ 305,055

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (B) Included as part of "Special Education Grant Cluster" in determining major programs.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (E) This schedule was prepared on the cash basis of accounting.
- (F) Amount of \$2,152 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (G) Amount of \$4,945 transferred from Adult Education State Grant Programs to Comprehensive School Reform based on Ohio Department of Education administrative action.
- (H) Amount of \$130,083 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (I) Amount of \$53 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (J) Amount of \$3,538 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (K) Amount of \$3,844 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (L) Amount of \$6,691 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (M) Amount of \$20,366 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (N) Amount of \$3,815 transferred from Education Technology Grants to Title I Grants to Local Educational Agencies based on Ohio Department of Education administrative action.
- (O) Amount of \$2,923 repaid to the Ohio Department of Education based on expiration of period of availability.
- (P) Amount of \$69,611 transferred to fiscal year 2006 grant based on Ohio Department of Education administrative action.
- (Q) Amount of \$92,180 transferred from Improving Teacher Quality State Grants to Title I Grants to Local Educational Agencies based on Ohio Department of Education administrative action.



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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
Mansfield City School District
53 West 4th Street
Mansfield, Ohio 44902

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the remaining aggregate fund information of the Mansfield City School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Mansfield City School District's basic financial statements, and have issued our report thereon dated February 23, 2007. 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 Mansfield City School 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 would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Mansfield City School District in a separate letter dated February 23, 2007.

Board of Education
Mansfield City School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mansfield City School 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-MCSD-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the Mansfield City School District in a separate letter dated February 23, 2007.

This report is intended solely for the information and use of management and the Board of the Mansfield City 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.".

Julian & Grube, Inc.
February 23, 2007



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

Board of Education
Mansfield City School District
53 West 4th Street
Mansfield, Ohio 44902

Compliance

We have audited the compliance of the Mansfield City School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The Mansfield City School District's major federal programs are 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 programs are the responsibility of the Mansfield City School District's management. Our responsibility is to express an opinion on the Mansfield City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 Mansfield City School 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 Mansfield City School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Mansfield City School 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 Mansfield City School District's internal control over compliance with requirements that could have a direct and material effect on its major federal programs 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 its major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Board of the Mansfield City 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.
February 23, 2007

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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)?	Yes
<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 Programs:	Title I - Grants to Local Educational Agencies - CDFA #84.010; Special Education Cluster - Special Education- Grants to States - CFDA #84.027 and Special Education-Preschool Grants - CFDA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2006-MCSD-001

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit that at June 30, 2006, the District had negative cash balances in the following funds:

<u>Nonmajor Funds</u>	<u>Amount</u>
Title I	\$ 8,157
Improving Teacher Quality	344,996

The District has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the District properly record receipts as deposits in transit only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the General Fund with proper Board approval.

Client response: The District will advance monies as necessary to cover temporary negative cash fund balances.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None



Mary Taylor, CPA
Auditor of State

MANSFIELD CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 29, 2007**