

**PAINT VALLEY LOCAL
SCHOOL DISTRICT
ROSS COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Paint Valley Local School District
7454 State Route 50
Bainbridge, Ohio 45612

We have reviewed the *Independent Auditors' Report* of the Paint Valley Local School District, Ross County, prepared by Holbrook & Manter, CPAs 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 Paint Valley Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 1, 2007

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**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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INDEPENDENT AUDITORS' REPORT

Board of Education
Paint Valley Local School District
Ross County
Bainbridge, OH 45612

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

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

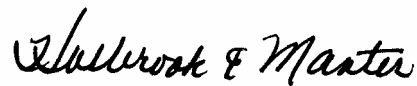
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Paint Valley Local School District as of June 30, 2006, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, certain items resulting in a reclassification of fund balances at June 30, 2005 have been identified. Accordingly, the fund balances at June 30, 2005 have been restated to reflect the reclassification.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2007 on our consideration of the Paint Valley Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the result of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of 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. 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.

The image shows a handwritten signature in black ink that reads "Shullbrook & Mantel". The signature is written in a cursive, flowing style.

Certified Public Accountants

September 26, 2007

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Paint Valley Local School District (the "School District") discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2006 by \$21,090,443.
- The School District's net assets of governmental activities decreased \$852,679.
- General revenues accounted for \$7,616,513 in revenue or 72 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants and contributions accounted for \$2,899,070 or 28 percent of total revenues of \$10,515,583.
- The School District had \$11,368,262 in expenses related to governmental activities; \$2,899,070 of these expenses was offset by program specific charges for services and sales, operating grants and contributions and capital grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Paint Valley Local School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's 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 the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other Non-Major funds presented in total in one column.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The analysis of the School District as a whole begins with the Statement of Net Assets and the Statement of Activities. These statements provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the School District has only one kind of activity.

- **Governmental Activities.** Most of the School District's programs and services are reported here including instruction and support services.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund and the Classroom Facilities Fund.

Governmental Funds - Most of the School 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 the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - The School District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the School District reports it as a proprietary fund using the full accrual basis of accounting. Since the internal fund exclusively benefits governmental functions, it has been included with governmental activities in the government-wide financial statements.

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

THE SCHOOL DISTRICT AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$ 6,181,607	\$ 6,206,305
Capital assets, net	19,838,677	20,666,036
Total assets	26,020,284	26,872,341
Liabilities		
Current and other liabilities	3,022,988	2,828,168
Long-term liabilities	1,906,853	2,090,178
Total liabilities	4,929,841	4,918,346
Net Assets		
Invested in capital assets, net of related debt	18,262,624	18,924,311
Restricted	1,781,448	2,424,864
Unrestricted	1,046,371	604,820
Total net assets	\$ 21,090,443	\$ 21,953,995

* Please note that the 2005 amounts were not restated for comparative purposes.

Total net assets of the District as a whole decreased \$852,679. Total assets decreased due to depreciation expense and disposal of capital assets.

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2006	2005
Revenues		
Program Revenues;-		
Charges for services and sales	\$ 710,852	\$ 742,385
Operating grants & contributions	2,164,421	1,975,551
Capital grants & contributions	<u>23,797</u>	<u>13,315</u>
Total program revenues	2,899,070	2,731,251
General Revenues;-		
Grants and entitlements, not restricted to specific programs	5,857,166	6,070,691
Gain on sale of capital assets	0	1,280
Gifts and donations, not restricted to specific programs	0	0
Investment earnings	168,543	91,184
Miscellaneous	14,196	22,238
Property and other local taxes	<u>1,576,608</u>	<u>1,513,947</u>
Total general revenues	<u>7,616,513</u>	<u>7,699,340</u>
Total revenues	10,515,583	10,430,591
Program Expenses		
Instruction;-		
Regular	4,870,262	4,822,232
Special	1,689,460	1,555,741
Vocational	2,527	1,628
Other	558,995	414,826
Support Services;-		
Pupils	305,367	286,963
Instructional staff	242,057	232,995
Board of Education	162,500	124,082
Administration	635,402	635,643
Fiscal	265,578	250,670
Operation and maintenance of plant	1,086,525	1,092,734
Pupil Transportation	759,798	703,225
Central	0	4,534
Operation of non-instructional services	427,510	425,573
Extracurricular activities	270,726	273,961
Interest and fiscal charges	<u>91,555</u>	<u>96,868</u>
Total expenses	11,368,262	10,921,675
Net assets at beginning of year	21,943,122	* 22,445,079
Increase/(decrease) in net assets	<u>(852,679)</u>	<u>(491,084)</u>
Net assets at end of year	<u>\$ 21,090,443</u>	<u>\$ 21,953,995</u>

* As Restated, See Note 3 – Please note that amounts in the 2005 column were not restated for comparative purposes.

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Governmental Activities

Charges for services and sales comprised 7 percent of revenue for governmental activities, while operating grants and contributions comprised 21 percent of revenue for governmental activities of the School District for fiscal year 2006.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 44 percent of governmental program expenses with Special Instruction comprising 14 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues.

**Table 3
Total and Net Cost of Program Services
Governmental Activities**

	<u>2006</u>		<u>2005</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 7,121,244	\$ 5,457,864	\$ 6,794,427	\$ 5,339,349
Support services	3,457,227	2,859,479	3,330,846	2,735,421
Operation of non-instructional services	427,510	43,227	425,573	(12,635)
Extracurricular activities	270,726	34,409	273,961	49,518
Interests and fiscal charges	91,555	74,213	96,868	78,771
Total expenses	\$ 11,368,262	\$ 8,469,192	\$ 10,921,675	\$ 8,190,424

THE SCHOOL DISTRICT'S FUNDS

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$10,507,326 and expenditures and other financing uses of \$11,078,325. Of the School District's major funds, the net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased by \$555,699. This decrease was primarily due to the School District having increased expenditures as compared to the prior year. The fund balance of the Classroom Facilities Fund increased \$35,026.

General Fund Budgeting Highlights

The School 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.

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

During 2006, there were several revisions to the General Fund budget. In part, these revisions increased appropriations by \$300,198 and increased revenues by \$67,106. The appropriation increase was due to instruction costs being higher than originally anticipated. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General fund's ending unobligated cash balance was \$1,258,814, which was \$1,491,907 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006 the School District had \$19,838,677 invested in its capital assets. Table 4 shows the fiscal year 2006 balances compared to 2005.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities	
	2006	2005
Land	\$ 35,188	\$ 35,188
Land improvements	805,763	861,330
Buildings and building improvements	17,732,675	18,472,996
Furniture and equipment	886,812	982,272
Vehicles	307,269	308,547
Infrastructure	70,970	5,703
Totals	\$ 19,838,677	\$ 20,666,036

Changes in capital assets from the prior year resulted from the addition of vehicles and infrastructure, the disposal of land improvements and building and building improvements, and depreciation expense. See Note 9 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2006 the School District had three outstanding capital leases and one outstanding bond. The capital leases were for fitness equipment and copiers. The bond was for the School District receiving a loan through the Ohio School Facilities Commission. The outstanding bond amount totaled \$1,510,000. See Note 15 to the basic financial statements for more detailed information regarding debt.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bob Ward, Treasurer, Paint Valley Local School District, 7454 State Route 50, Bainbridge, Ohio 45612.

BASIC
FINANCIAL STATEMENTS

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
ASSETS:-	
Current Assets:-	
Equity in pooled cash and cash equivalents	\$ 3,078,581
Cash and cash equivalents with fiscal agents	335,988
Intergovernmental receivable	184,017
Taxes receivable	1,756,743
Noncurrent Assets:-	
Restricted Assets:-	
Equity in pooled cash and cash equivalents	826,278
Non-depreciable capital assets	35,188
Depreciable capital assets, net	<u>19,803,489</u>
Total assets	<u>26,020,284</u>
LIABILITIES:-	
Current Liabilities:-	
Accounts payable	32,022
Accrued wages and benefits	837,461
Intergovernmental payable	412,956
Deferred revenue	1,555,335
Claims payable	185,214
Noncurrent Liabilities:-	
Long-term liabilities:	
Due within one year	138,300
Due in more than one year	<u>1,768,553</u>
Total liabilities	<u>4,929,841</u>
NET ASSETS:-	
Invested in capital assets, net of related debt	18,262,624
Restricted for debt service	183,358
Restricted for capital outlay	1,382,683
Restricted for other purposes	211,937
Restricted - Permanent Fund	
Expendable	404
Nonexpendable	3,066
Unrestricted	<u>1,046,371</u>
Total net assets	<u>\$ 21,090,443</u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
GOVERNMENTAL ACTIVITIES:-						
Instruction:						
Regular	\$ 4,870,262	\$ 229,144	\$ 357,221	\$ 19,405	\$ (	4,264,492)
Special	1,689,460	55,861	966,413	0	(	667,186)
Vocational	2,527	128	0	0	(	2,399)
Other	558,995	31,631	3,577	0	(	523,787)
Support services:						
Pupil	305,367	14,648	40,303	0	(	250,416)
Instructional staff	242,057	13,724	1,151	0	(	227,182)
Board of Education	162,500	9,267	0	0	(	153,233)
Administration	635,402	34,647	11,727	0	(	589,028)
Fiscal	265,578	14,779	1,228	4,392	(	245,179)
Operations and maintenance	1,086,525	55,337	5,708	0	(	1,025,480)
Pupil transportation	759,798	38,840	351,997	0	(	368,961)
Operation of non-instructional services	427,510	63,362	320,921	0	(	43,227)
Extracurricular activities	270,726	148,818	87,499	0	(	34,409)
Interest and fiscal charges	91,555	666	16,676	0	(	74,213)
Total governmental activities	<u>\$ 11,368,262</u>	<u>\$ 710,852</u>	<u>\$ 2,164,421</u>	<u>\$ 23,797</u>	<u>(</u>	<u>8,469,192)</u>

GENERAL REVENUES:-

Property taxes levied for:

General purposes	1,312,354
Special purposes	26,724
Building maintenance	100,249
Debt service	137,281
Permanent improvement	
Grants and entitlements not restricted to specific programs	5,857,166
Investment earnings	168,543
Miscellaneous	14,196
Total general revenues	<u>7,616,513</u>

Change in net assets	(	852,679)
Net assets at beginning of year (restated)		<u>21,943,122</u>
Net assets at end of year	\$	<u><u>21,090,443</u></u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General Fund</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:-				
Equity in pooled cash and cash equivalents	\$ 737,638	\$ 932,019	\$ 952,881	\$ 2,622,538
Interfund receivable	3,060	0	0	3,060
Intergovernmental receivable	0	0	72,532	72,532
Taxes receivable	1,463,197	0	293,546	1,756,743
Restricted assets:-				
Equity in pooled cash and cash equivalents	828,277	0	0	828,277
Total assets	<u>\$ 3,032,172</u>	<u>\$ 932,019</u>	<u>\$ 1,318,959</u>	<u>\$ 5,283,150</u>
LIABILITIES:-				
Accounts payable	\$ 26,786	\$ 0	\$ 5,236	\$ 32,022
Accrued wages and benefits	673,599	0	163,862	837,461
Interfund payable	0	0	3,060	3,060
Intergovernmental payable	364,303	0	48,653	412,956
Deferred revenue	1,330,559	0	338,787	1,669,346
Total liabilities	<u>2,395,247</u>	<u>0</u>	<u>559,598</u>	<u>2,954,845</u>
EQUITY:-				
Fund Balances:-				
Reserved:-				
Reserved for encumbrances	280,339	0	22,243	302,582
Reserved for contributions	0	0	3,066	3,066
Reserved for property taxes	132,638	0	27,291	159,929
Reserved for textbooks and instructional materials	90,314	0	0	90,314
Reserved for capital improvements	1,421	0	0	1,421
Reserved for budget stabilization	358,229	0	0	358,229
Unreserved, undesignated, reported in:-				
General fund	(226,016)	0	0	(226,016)
Special revenue funds	0	0	121,701	121,701
Debt service funds	0	0	165,132	165,132
Capital projects funds	0	932,019	419,524	1,351,543
Permanent funds	0	0	404	404
Total fund balances	<u>636,925</u>	<u>932,019</u>	<u>759,361</u>	<u>2,328,305</u>
Total liabilities and fund balances	<u>\$ 3,032,172</u>	<u>\$ 932,019</u>	<u>\$ 1,318,959</u>	<u>\$ 5,283,150</u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total governmental fund balances		\$ 2,328,305
<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.		19,838,677
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	\$ 41,479	
Intergovernmental revenue	<u>72,532</u>	
Total		114,011
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		716,303
Long-term liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(330,800)	
Capital Lease Obligations	(66,053)	
General obligation bonds payable	<u>(1,510,000)</u>	
Total		<u>(1,906,853)</u>
Net assets of governmental activities		\$ <u>21,090,443</u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:-				
Property and other local taxes	\$ 1,309,022	\$ 0	\$ 263,536	\$ 1,572,558
Intergovernmental	6,585,664	0	1,392,678	7,978,342
Interest	133,256	35,026	261	168,543
Tuition and fees	508,728	0	0	508,728
Rent	365	0	0	365
Extracurricular activities	0	0	140,385	140,385
Customer sales and services	0	0	61,375	61,375
Miscellaneous	12,120	0	2,076	14,196
Total revenue	<u>8,549,155</u>	<u>35,026</u>	<u>1,860,311</u>	<u>10,444,492</u>
EXPENDITURES:-				
Current:-				
Instruction:-				
Regular	4,041,358	0	440,768	4,482,126
Special	979,578	0	708,511	1,688,089
Vocational	2,243	0	0	2,243
Other	554,691	0	4,304	558,995
Support services:-				
Pupil	257,987	0	48,499	306,486
Instructional staff	239,940	0	1,385	241,325
Board of Education	162,500	0	0	162,500
Administration	605,959	0	14,112	620,071
Fiscal	251,246	0	6,419	257,665
Operations and maintenance	966,680	0	6,869	973,549
Pupil transportation	690,246	0	0	690,246
Operation of non-instructional services	34,841	0	385,903	420,744
Extracurricular activities	147,874	0	105,293	253,167
Capital outlay	0	0	103,799	103,799
Debt service:-				
Principal	100,672	0	65,000	165,672
Interest	11,687	0	79,868	91,555
Total expenditures	<u>9,047,502</u>	<u>0</u>	<u>1,970,730</u>	<u>11,018,232</u>
Excess of revenues over (under) expenditures	<u>(498,347)</u>	<u>35,026</u>	<u>(110,419)</u>	<u>(573,740)</u>
OTHER FINANCING SOURCES (USES):-				
Transfers in	0	0	60,093	60,093
Proceeds from sale of capital assets	2,741	0	0	2,741
Transfers out	(60,093)	0	0	(60,093)
Total other financing sources (uses)	<u>(57,352)</u>	<u>0</u>	<u>60,093</u>	<u>2,741</u>
Net change in fund balances	<u>(555,699)</u>	<u>35,026</u>	<u>(50,326)</u>	<u>(570,999)</u>
Fund balance (deficit) at beginning of year	<u>1,192,624</u>	<u>896,993</u>	<u>809,687</u>	<u>2,899,304</u>
Fund balance (deficit) at end of year	<u>\$ 636,925</u>	<u>\$ 932,019</u>	<u>\$ 759,361</u>	<u>\$ 2,328,305</u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (570,999)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital assets additions	137,960	
Current year depreciation	(906,750)	
Total		(768,790)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Proceeds from Sale of Capital Assets	(2,741)	
Loss on Disposal of Capital Assets	(55,828)	
		(58,569)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	4,050	
Intergovernmental	67,041	
Total		71,091

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.

65,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.

100,672

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.

291,263

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.

Increase in Compensated Absences	17,653	
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Total		17,653
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Change in net assets of governmental activities \$ (852,679)

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES:-				
Property and other local taxes	\$ 2,506,465	1,763,639	1,318,299	\$ (445,340)
Income tax	0	344	344	0
Intergovernmental	6,094,208	6,585,664	6,585,664	0
Interest	0	133,256	133,256	0
Tuition and fees	460,044	508,728	508,728	0
Rent	0	365	365	0
Miscellaneous	0	11,379	11,379	0
				0
Total revenues	<u>9,060,717</u>	<u>9,003,375</u>	<u>8,558,035</u>	<u>(445,340)</u>
EXPENDITURES:-				
Current:-				
Instruction:-				
Regular	6,108,788	5,806,579	4,280,744	1,525,835
Special	876,640	972,531	970,363	2,168
Vocational	(4,578)	8,447	8,245	202
Other	413,153	581,484	580,161	1,323
Support services:-				
Pupil	244,844	257,942	257,101	841
Instructional staff	195,953	219,823	217,654	2,169
Board of Education	137,922	176,459	173,125	3,334
Administration	608,135	654,434	649,282	5,152
Fiscal	245,886	259,399	256,954	2,445
Operations and maintenance	1,033,283	1,044,908	1,032,793	12,115
Pupil transportation	637,727	761,498	687,454	74,044
Operation of non-instructional services:-				
Food service operations	6,787	525	525	0
Community services	18,585	19,618	17,439	2,179
Extracurricular activities:-				
Academic oriented activities	16,350	19,791	19,791	0
Sport oriented activities	118,953	130,943	125,503	5,440
School and public service co-curricular activities	16,981	18,053	18,053	0
Total expenditures	<u>10,675,409</u>	<u>10,932,434</u>	<u>9,295,187</u>	<u>1,637,247</u>
Excess of revenues over (under) expenditures	<u>(1,614,692)</u>	<u>(1,929,059)</u>	<u>(737,152)</u>	<u>1,191,907</u>
OTHER FINANCING SOURCES (USES):-				
Transfers in	144,706	233,092		(233,092)
Advances in	0	32,555	32,555	0
Proceeds from sale of capital assets	0	1,501	1,501	0
Refund of prior year expenditures	0	1,981	1,981	0
Transfers (out)	(220,527)	(293,185)	(60,093)	233,092
Advances (out)	(32,555)	(3,060)	(3,060)	0
Refund of prior year receipts	0	(10)	(10)	0
Other financing uses	(300,000)	(300,000)	0	300,000
Total other financing sources and uses	<u>(408,376)</u>	<u>(327,126)</u>	<u>(27,126)</u>	<u>300,000</u>
Net change in fund balance	<u>(2,023,068)</u>	<u>(2,256,185)</u>	<u>(764,278)</u>	<u>1,491,907</u>
Fund balance (deficit) at beginning of year	1,653,976	1,653,976	1,653,976	0
Prior year encumbrances appropriated	<u>369,092</u>	<u>369,092</u>	<u>369,116</u>	<u>24</u>
Fund balance (deficit) at end of year	\$ <u>0</u>	\$ <u>(233,117)</u>	\$ <u>1,258,814</u>	\$ <u>1,491,931</u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
INTERNAL SERVICE FUND
JUNE 30, 2006

		<u>Internal Service</u>
ASSETS:-		
Current Assets:-		
Equity in pooled cash and cash equivalents	\$	454,044
Cash and cash equivalents with fiscal agents		335,988
Intergovernmental receivable		<u>111,485</u>
 Total assets		 <u>901,517</u>
 LIABILITIES:-		
Current Liabilities:-		
Claims payable		<u>185,214</u>
 Total liabilities		 <u>185,214</u>
 NET ASSETS:-		
Unrestricted		<u>716,303</u>
 Total net assets	 \$	 <u><u>716,303</u></u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Internal Service
OPERATING REVENUES:-	
Charges for services	\$ 1,331,189
Total operating revenues	1,331,189
OPERATING EXPENSES:-	
Purchased services	201,981
Claims	843,628
Total operating expenses	1,045,609
Operating income (loss)	285,580
NON-OPERATING REVENUES (EXPENSES):-	
Interest	5,683
Total non-operating revenues (expenses)	5,683
Net change in net assets	291,263
Net assets at beginning of year	425,040
Net assets at end of year	\$ 716,303

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Internal Service</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS :-	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,331,189
Cash Payments for Claims	(894,250)
Cash Payments for Purchased Services	<u>(201,981)</u>
Net Cash Provided by Operating Activities	<u>234,958</u>
Cash Flows from Noncapital Financing Activities:	
Loan from Other Governments	(74,605)
Interest	<u>5,683</u>
Net Cash Used for Noncapital Financing Activities	<u>(68,922)</u>
Net increase in cash and cash equivalents	<u>166,036</u>
Cash and Cash Equivalents at Beginning of Year	<u>623,996</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 790,032</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 285,580
Changes in Assets and Liabilities:	
Increase in Claims Payable	<u>(50,622)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 234,958</u></u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust Fund	Agency Fund
ASSETS:-		
Current assets:-		
Equity in pooled cash and cash equivalents	\$ <u>10,479</u>	\$ <u>38,315</u>
Total assets	<u>10,479</u>	<u>38,315</u>
LIABILITIES:-		
Current liabilities:-		
Undistributed monies	<u>0</u>	<u>38,315</u>
Total liabilities	<u>0</u>	<u>38,315</u>
NET ASSETS:-		
Restricted for other purposes	<u>10,479</u>	
Total net assets	\$ <u><u>10,479</u></u>	

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

		<u>Private-Purpose Trust</u>
ADDITIONS:-		
Gifts and contribution:	\$	1,500
Miscellaneous		<u>7,585</u>
Total additions		<u>9,085</u>
DEDUCTIONS:-		
Payments in accordance with trust agreements		<u>9,479</u>
Total deductions		<u>9,479</u>
Change in net assets	(	394)
Net assets beginning of year, as restated.		<u>10,873</u>
Net assets end of year	\$	<u><u>10,479</u></u>

See accompanying Notes to the Basic Financial Statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT:-

Paint Valley Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District was established in 1956 through the consolidation of existing land areas and school districts. The District serves an area of approximately 121 square miles. It is located in Ross County, and includes all of the Villages of Bainbridge and Bourneville and portions of Paxton, Paint and Twin Townships. It is staffed by 47 non-certificated employees, 90 certificated full-time teaching personnel and 4 administrative employees who provide services to 1,168 students and other community members. The District currently operates 3 instructional buildings and 1 bus garage.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For 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' government 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. The District has no component units.

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

- Parent Teacher Organization
- Athletic Boosters & Band Boosters
- Ross-Pike Educational Service District

The School District is associated with three jointly governed organizations: South Central Ohio Computer Association, Pickaway-Ross County Career and Technical Center, and Great Seal Education Network of Tomorrow. The District is also associated with a claim servicing pool and an insurance purchasing pool: The Ross County School Employees Insurance Consortium and the Ohio School Boards Association Workers Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its governmental activities and proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Fund Accounting

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

Government-wide Financial Statements - The statement of net assets and the statements of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds.

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

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

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. The funds used by the District can be classified using three categories: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District 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:

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

General Fund - The general fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Classroom Facilities Fund - The classroom facilities fund is a fund provided to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom.

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 following is the District's proprietary fund type:

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The District's fiduciary funds are agency funds which are used to maintain financial activity of the District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the District Scholarship Funds.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - 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. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in total net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included in on the statement of net assets. The statement of changes in fund net assets presents increases (i.e. revenues) and decreased (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.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. Government-wide financial statements and fund financial statements of the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenue - 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. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 7).

Revenue from grants 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 and grants.

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. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary and fiduciary funds. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities upon the occurrence of employee resignations and retirements. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. *Budgetary Process*

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 Self-Insurance Internal Service Fund has only the dental insurance portion of the fund budgeted and shown as part of the District's cash activity; the medical insurance activity is handled by a fiscal agent and is therefore not budgeted. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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 the Ross County Budget Commission for tax rate determination.

Estimated Resources - Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year.

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 in the final Amended Certificates issued for fiscal year 2006. Before year end, the District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

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 must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. 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, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation 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, two supplemental appropriations were legally enacted; however, these amendments were not significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds and the self insurance fund, consistent with statutory provisions.

Encumbrances - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 balance sheet.

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue, credited to the General Fund during fiscal year 2006 amounted to \$133,256. The Classroom Facilities Fund and Lunchroom Fund received \$35,026 and \$261, respectively.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents.

E. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO**
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 years
Buildings and improvements	20 - 50 years
Furniture and equipment	8 - 20 years
Vehicles	10 years
Textbooks	5 - 15 years

F. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probably of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees after 10 years of current service with the District.

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

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

G. Accrued Liabilities and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. The entire bonds and capital leases liabilities are reported as a liability in the government-wide financial statements.

H. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

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 financial statements. Interfund transfers between governmental funds are eliminated in the governmental statement of activities.

I. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent unexpended amounts required by statute to be set-asides by the District for the purchase of textbooks, capital improvements and budget stabilization. See Note 18 for additional information regarding set-asides.

J. Fund Balance Reserves

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund equity reserves are established for contributions, encumbrances, property taxes, textbooks and instructional materials, capital improvements and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under accounting principals generally accepted in the United States of America, but not available for appropriation under state statute.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

L. Interfund Balances

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

M. 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 adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, and federal and state grants restricted to expenditures for specified purposes.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's \$1,781,448 restricted net assets, \$0 is restricted by enabling legislation.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

NOTE 3 - CHANGE 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 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require restatement of prior year balances.

The restated fund balance amounts for governmental funds and the restated net asset amounts for government programs and fiduciary funds reflects the change in net assets for governmental funds at June 30, 2005 and were due to the reclassification of funds from a special revenue fund to a private purpose trust fund.

	<u>General</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
Fund balance June 30, 2005	\$ 1,192,624	\$ 896,993	\$ 820,560	\$ 2,910,177
Fund reclassification	0	0	(10,873)	(10,873)
Restated fund balance, June 30, 2005	\$ 1,192,624	\$ 896,993	\$ 809,687	\$ 2,899,304

	<u>Fiduciary Funds Private Purpose Trust Fund</u>
Net assets, June 30, 2005	\$ 0
Net asset reclassification	10,873
Restated net assets, June 30, 2005	<u>\$ 10,873</u>
Net assets, June 30, 2005	\$ 21,953,995
Fund reclassification	(10,873)
Restated net assets, June 30, 2005	\$ 21,943,122

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 4 – ACCOUNTABILITY:-

At June 30, 2006, the Cafeteria/Lunchroom, the D.P.I.A., Poverty Based Aid, Title VI-B, Chapter I/Title I, and Class Size Reduction Special Revenue Funds had deficit fund Balances of \$55,750, \$35,481, \$26,448, \$52,568, and \$6,052 respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

For the final budget, appropriations exceeded estimated resources in the General Fund in the amount of \$233,117.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING:-

While the District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Net Change in Fund Balance

	General Fund
GAAP basis	\$ (555,699)
Revenue accruals	42,176
Expenditure accruals	56,370
Encumbrances	(307,125)
Budget basis	\$ (764,278)

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - 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 the Board of Education has identified as not required for use within the current two-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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to the payment of 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. 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.
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institutions agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS:- (continued)

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand - At year end, the District had \$50 in undeposited cash on hand which is included on the balance sheet of the District as part of Equity in Pooled Cash and Cash Equivalents.

Deposits - Custodial credit risk for deposits is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$384,961 of the District's bank balance of \$488,028 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's department or agent, but not in the District's name.

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

	Balance at Fair Value	Weighted Average Maturity (Years)
STAR Ohio	\$ 3,710,754	\$ 0
	\$ 3,710,754	\$ 0

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS:- (continued)

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio and Certificates of Deposit. Investments in STAR Ohio were rated AAA by Standard & Poor's.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District has an investment policy which allows only investments in STAR Ohio and Certificates of Deposit. The District has invested 100 percent in STAR Ohio.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

NOTE 7 - 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. Property tax revenue received in calendar 2006 for real and public utility property taxes represents collections of calendar year 2005 taxes. Property tax payments received during calendar year 2006 for tangible personal property (other than public utility property) are for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

Real Property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 - PROPERTY TAX :- (continued)

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

	2005 Second		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 60,759,570	91.15%	\$ 61,838,580	91.24%
Public utility personal	23,590	.03%	4,283,960	6.32%
Tangible personal property	<u>5,877,380</u>	<u>8.82%</u>	<u>1,656,360</u>	<u>2.44%</u>
Total assessed value	\$ <u><u>66,660,540</u></u>	<u><u>100.00%</u></u>	\$ <u><u>67,778,900</u></u>	<u><u>100.00%</u></u>
Tax rate per \$1,000 of assessed valuation	\$ 35.20		\$ 35.20	

The District receives property taxes from Ross County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The amount available as an advance at June 30, 2006, was \$132,638 in the General Fund, \$2,777 in the Classroom Facilities Maintenance Special Revenue Fund, \$14,527 in the Debt Service Fund, and \$9,987 in the Permanent Improvement Capital Projects Fund.

NOTE 8 - RECEIVABLES:-

Receivables at June 30, 2006 consisted of property taxes and intergovernmental. 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 fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables is as follows:

	<u>Total</u>
Non-Major Funds:-	
Title I	\$ 19,297
Title II	16,019
Special Education, Title VI-B	<u>37,216</u>
Total Non-Major Funds	72,532
Internal Service Fund	111,485
Total intergovernmental receivable	\$ <u><u>184,017</u></u>

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL ASSETS:-

A summary of the changes in capital assets during fiscal year 2006 follows:

	Balance 6/30/05	Additions	Deductions	Balance 6/30/06
Governmental Activities:-				
Capital assets, not being depreciated:-				
Land	\$ 35,188	\$ 0	\$ 0	\$ 35,188
Total capital assets, not being depreciated	35,188	0	0	35,188
Capital assets, being depreciated:-				
Land improvements	1,266,541	0	(47,028)	1,219,513
Buildings and improvements	23,344,574	0	(383,323)	22,961,251
Furniture and equipment	1,293,387	0	0	1,293,387
Vehicles	1,149,004	66,490	(61,146)	1,154,348
Infrastructure	6,222	71,470	0	77,692
Textbooks	357,341	0	0	357,341
Total capital assets, being depreciated	27,417,069	137,960	(491,497)	27,063,532
Accumulated depreciation:-				
Land improvements	(405,211)	(45,796)	37,257	(413,750)
Buildings & improvements	(4,871,578)	(691,523)	334,525	(5,228,576)
Furniture and equipment	(311,115)	(95,460)	0	(406,575)
Vehicles	(840,457)	(67,768)	61,146	(847,079)
Infrastructure	(519)	(6,203)	0	(6,722)
Textbooks	(357,341)	0	0	(357,341)
Total accumulated depreciation	(6,786,221)	(906,750)	432,928	(7,260,043)
Governmental activities capital assets, net	\$ 20,666,036	\$ (768,790)	\$ (58,569)	\$ 19,838,677

Depreciation expense was charged to governmental functions as follows:

Instruction:-	
Regular instruction	\$ 680,759
Vocational instruction	284
Support Services:-	
Administration	13,716
Operations	109,257
Pupil transportation	78,692
Operation of non-instructional services	6,483
Extracurricular activities	17,559
Total depreciation expense	\$ 906,750

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 10 - RISK MANAGEMENT:-

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Nationwide Insurance for property and fleet insurance, and Marsh Insurance of Cincinnati provided liability and inland marine coverage.

Coverages provided by Nationwide Insurance are as follows:-

Building and Contents-replacement cost (\$2,500 deductible)	\$31,334,739
Automobile Liability (\$250 deductible)	3,000,000
General school district liability;-	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no change in coverage from last year.

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). 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. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the CRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of the Ross County School Employees Insurance Consortium, a claims servicing pool, consisting of eighteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School Districts behalf. The claims liability of \$185,214 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administration and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relation to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claims adjustment expenses.

Changes in claims activity for the fiscal year follows:-

	<u>Balance at</u> <u>Beg. of Year</u>		<u>Current Year</u> <u>Claims</u>		<u>Claim</u> <u>Payments</u>		<u>Balance at</u> <u>End of Year</u>
2004	\$ 91,473	\$	745,639	\$	729,482	\$	107,630
2005	107,630		932,303		804,097		235,836
2006	235,836		843,628		894,250		185,214

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS:-

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. For fiscal year 2006, 10.58% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$150,980, \$165,522, and \$71,192, respectively. 53% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$78,581, represents the unpaid contribution for fiscal year 2006.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plans. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan offers members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. A DC and Combined Plan members will transfer to the Defined Benefits Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefits” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on the years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on)

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS:- (continued)

until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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

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

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, which ever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

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

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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year 2006, plan members are required to contribute 10% of their annual covered salary. The District is required to contribute 14%. For fiscal year 2006, 13% was the portion allocated to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS:- (continued)

actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$577,333, \$577,336, and \$539,682, respectively; 83% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$99,899, represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS:-

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and 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 on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2006, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$44,382 during fiscal 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 \$3.1 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal year June 30, 2006, employer contributions to fund health care benefits were 2.3% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$147,171.

The target level for health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207 and the target level was 150% of the projected claims less premium contributions for the next fiscal year. At June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected health care costs. SERS has approximately 59,492 participants currently receiving health care benefits.

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 13 - EMPLOYEE BENEFITS:-

A. Compensation Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for thirty percent of accrued, but unused sick leave credit to a maximum of 60 days.

B. Life and Accident Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Cairnstone, Inc. The District has elected to provide employee medical/surgical benefits, vision and prescription drug benefits through the Ross County Insurance Consortium. The employees share the cost of the monthly premium with the board. The premium varies with employee depending on the terms of the union contract.

NOTE 14 - CAPITAL LEASES- LESSEE DISCLOSURE:-

During fiscal year 2006, the School district did not enter into any new capital leases. In previous fiscal years, the School District entered into capital leases for equipment and furniture and fixtures. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

The gross amount of capital leases being disclosed in Note 9 under furniture and equipment totals \$453,688.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Fiscal Year Ending June 30,	<u>Amount</u>
2007	\$ 39,292
2008	21,083
2009	8,076
2010	<u>7,403</u>
Total	75,854
Less amount representing interest	<u>(9,801)</u>
Present value of net minimum lease payments	<u><u>\$ 66,053</u></u>

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 15 - LONG-TERM OBLIGATIONS:-

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

	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
School Improvement General Obligation Bonds 5.25%	\$ 1,575,000	\$ 0	\$ 65,000	\$ 1,510,000	\$ 70,000
Capital leases	166,725	0	100,672	66,053	34,451
Compensated absences	348,453	26,290	43,943	330,800	33,849
Total general long-term obligations	\$ 2,090,178	\$ 26,290	\$ 209,615	\$ 1,906,853	\$ 138,300

On July 10, 1998, the District issued long-term general obligation bonds in the amount of \$1,945,800, as a result of the District being approved for a \$15,430,564 school facilities loan through the State Department of Education for the construction of an education complex. The 5.25% bonds will be retired in December 2021 and are being paid from the debt service fund. As a requirement of the loans, the District was required to pass a 3.7 mill levy. The 3.7 mill levy, of which .25 mill was to be used for the retirement of the loan and .25 mill was to be used for maintenance, with the balance of 3.2 mills to be used for the retirement of the long-term bonds issued, will be in effect for twenty-three years.

The District has been notified by the Ohio School Facilities Commission that they will not be responsible for repaying the \$15,340,564 classroom facilities loan to the State because the District's adjusted valuation per pupil (currently 437 out of 611 schools) was less than the state-wide median adjusted valuation per pupil. In lieu of the repayment, the District must set aside the funds that would have been used for the repayment for facilities maintenance. As part of this process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the District's adjusted valuation per pupil increases above the state-wide median adjusted calculation during the twenty-three year period, the District may become responsible for repayment of a portion of the State's contribution.

Capital leases will be paid from the General Fund. The compensated absences will be paid from the funds from which the employees' salaries are paid.

The District's overall legal debt margin was \$4,590,101 with an unvoted debt margin of \$67,779. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006, are as follows:

Year	Principal	Interest	Total
2007	\$ 70,000	\$ 76,324	\$ 146,324
2008	70,000	72,649	142,649
2009	80,000	68,711	148,711
2010	75,000	64,642	139,642
2011	85,000	60,443	145,443
2012-2016	495,000	230,897	725,897
2017-2021	635,000	85,930	720,930
Totals	\$ 1,510,000	\$ 659,596	\$ 2,169,596

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS:-

South Central Ohio Computer Association – The District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the participating member counties, two school treasurers, plus one representative from the fiscal agent. The District paid SCOCA \$69,705 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County CTC District Treasurer, at P.O. Box 577, 23365 Sr. Rt. 124, Piketon, Ohio 45661.

Pickaway-Ross County Career and Technical Center (CTC) – The Pickaway-Ross County CTC is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, each of which possess its own budgeting and taxing authority. The District paid \$1,937 for services provided during the year. To obtain financial information write to the Pickaway-Ross County CTC, Ben Van horn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

Great Seal Education Network of Tomorrow - The Great Seal Education Net work of Tomorrow is a regional council of governments (the Council) consisting of twelve city, local, and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members, each of which possess its own budgeting and taxing authority. The District did not pay for any services provided during the year. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

NOTE 17 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS:-

Ross County School Employees Insurance Consortium – The District is a member of the Ross County School Employees Insurance Consortium (the Consortium), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. The Consortium provides medical/surgical, dental, vision, or life insurance through a third party administrator, Professional Risk Management Co., depending on which coverage's the individual member district chooses. The Consortium business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, 19463 Pherson Pike, Williamsport, OH 43164-9745.

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

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES:-

The District is required by state law 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 or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in restricted cash at year-end and carried forward to be used for the same purposes in future years. For the fiscal year ended June 30, 2006, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Worker's Compensation, which must be spent for specified purposes.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside reserve balance as of June 30, 2005	\$ 85,055	\$ 4,201	\$ 300,000
Current year set-aside requirement	142,113	142,113	58,229
Current year offsets	0	(139,297)	0
Current year disbursements	(136,854)	(5,596)	0
Set -aside balance carried forward to future fiscal years	\$ 90,314	\$ 1,421	\$ 358,229
Set-aside reserve balance as of June 30, 2006	\$ 90,314	\$ 1,421	\$ 358,229

NOTE 19 - INTERFUND ACTIVITY:-

Interfund Payables/Receivables

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

	Interfund Receivable	Interfund Payable
Major Funds:-		
General Fund	\$ 3,060	\$ 0
Special Revenue Funds, Non-Major:-		
Title VI-B	0	3,060
Total Special Revenue Funds	3,060	3,060
Totals	\$ 3,060	\$ 3,060

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 19 - INTERFUND ACTIVITY:- (continued)

During the year, the District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

Interfund Transfers

During the fiscal year ended June 30, 2006, transfers that resulted from various interfund transactions were as follows:

	Transfer From	Transfer To
Major Funds:-		
General Fund	\$ 60,093	\$ 0
Non-Major Funds:-		
Cafeteria/Lunchroom Fund	0	54,093
Athletic Department Fund	0	6,000
Total	\$ 60,093	\$ 60,093

During the year, the District's General Fund made a transfer to the Cafeteria/Lunchroom and Athletic Department funds to cover expenditures incurred by the Cafeteria/Lunchroom and Athletic Department funds not covered by user charges or athletic gate receipts, respectively.

NOTE 20 - CONTINGENCIES:-

Grants

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

Litigation

The District is not party to legal proceedings.

NOTE 21- INTERGOVERNMENTAL PAYABLES:-

The \$412,956 in intergovernmental payables includes an SERS surcharge of \$182,981. The maximum amount that the District would be required to repay would be 2% of this surcharge. The district is recording the entire amount as the intergovernmental payable, even though the 2% limitation is in effect.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR	Pass Through Entity Number	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	DISBURSE- MENTS	NON-CASH DISBURSE- MENTS
<u>U.S. DEPARTMENT OF AGRICULTURE:-</u>						
Pass-Through Ohio Department of Education - Nutrition Cluster;						
Food Distribution Program	N/A	10.550	\$ 0	\$ 23,032	\$ 0	\$ 23,032
School Breakfast Program	05PU	10.553	48,365	0	48,365	0
National School Lunch Program	LLP4	10.555	200,042	0	200,042	0
National Grant	TWSU	10.574	<u>0</u>	<u>0</u>	<u>1,585</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			248,407	23,032	249,992	23,032
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:-</u>						
Pass-Through Ohio Treasurer of State						
FEMA	N/A	97.036	<u>10,218</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Homeland Security -			10,218	0	0	0
<u>U.S. DEPARTMENT OF EDUCATION:-</u>						
Pass-Through Ohio Department of Education						
Special Education Grants to States (IDEA Part B)						
	6BSF/6BSD	84.027	327,657	0	335,211	0
Innovative Educational Program Grants to Local Educational Agencies (ESEA Title I)						
	C1S1/C1SD	84.010	354,879	0	358,227	0
	C2S1	84.298	3,621	0	3,522	0
	DRS1	84.186	8,518	0	8,518	0
	TRS1	84.367	76,324	0	73,602	0
	TJS1	84.318	<u>5,539</u>	<u>0</u>	<u>5,539</u>	<u>0</u>
Total Department of Education			776,538	0	784,619	0
Total Federal Assistance			<u>\$ 1,035,163</u>	<u>\$ 23,032</u>	<u>\$ 1,034,611</u>	<u>\$ 23,032</u>

See accompanying notes to schedule of federal awards.

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES:-

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FOOD DISTRIBUTION:-

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule as the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



REPORT ON INTERNAL CONTROL AND ON COMPLIANCE
OVER FINANCIAL REPORTING BASED ON AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Paint Valley Local School District
Ross County
Bainbridge, Ohio 45612

We have audited the financial statements of the governmental activities each major fund and the aggregate remaining fund information of Paint Valley Local School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 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 Paint Valley Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected in 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 Paint Valley Local School District in a separate letter dated September 26, 2007.

Compliance and Other Matters

As part of whether Paint Valley Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions with laws, regulation, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Paint Valley Local School District in a separate letter dated September 26, 2007.

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

Shullbrook & Mante

Certified Public Accountants

September 26, 2007



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

Board of Education
Paint Valley Local School District
Ross County
Bainbridge, OH 45612

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weaknesses is a 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Hullbrook & Mantel

Certified Public Accountants

September 26, 2007

**PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported noncompliance at the financial statement level (GAGAS)?	No
Were there any material internal control weakness conditions reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unqualified
Are there any reportable findings under §.510	No
Major Programs (list):	Special Education Grants to State (Title VI Part B) CFDA 84.027
Dollar Threshold: Type A\B Programs	Type A> \$300,000 Type B: all others
Low Risk Auditee?	Yes

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

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

No Prior Year Findings.



Mary Taylor, CPA
Auditor of State

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS 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
NOVEMBER 13, 2007