

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

KIMBERLY REYNOLDS, TREASURER



Mary Taylor, CPA

Auditor of State

Board of Directors
Ridgedale Community School
3103 Hillman-Ford Road
Morral, Ohio 43337

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 20, 2007

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**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

Board of Directors
Ridgedale Community School
3103 Hillman-Ford Road
Morral, OH 43337

We have audited the accompanying financial statements of Ridgedale Community School (the "School"), Marion County, Ohio, a component unit of Ridgedale Local School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ridgedale Community School, as of June 30, 2006, and the changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2006, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Ridgedale Community School
Page Two

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

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

Julian & Grube, Inc.
December 27, 2006

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets were \$256,667 at June 30, 2006.
- The School had operating revenues of \$243,089 and operating expenses of \$387,229 for fiscal year 2006. The School also received \$180,646 in federal and state grants and \$818 in interest income during fiscal year 2006. Total change in net assets for the fiscal year was an increase of \$37,324.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

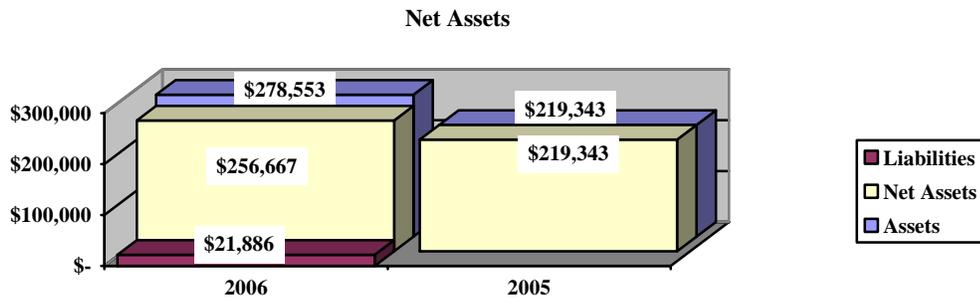
**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

The table below provides a comparative analysis of the School's net assets for fiscal year 2006 and 2005:

Net Assets		
	2006	2005
<u>Assets</u>		
Current assets	\$ 278,553	\$ 219,343
Total assets	278,553	219,343
<u>Liabilities</u>		
Current liabilities	21,886	-
Total liabilities	21,886	-
<u>Net Assets</u>		
Restricted	8,742	-
Unrestricted	247,925	219,343
Total net assets	\$ 256,667	\$ 219,343

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the School's net assets totaled \$256,667.



**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

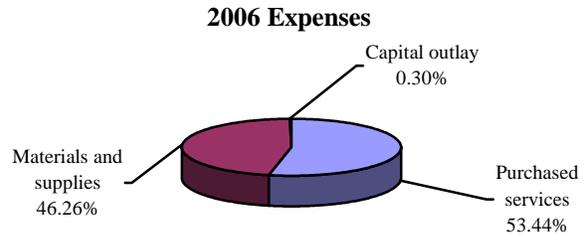
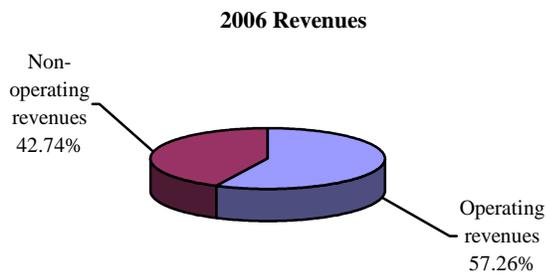
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Change in Net Assets

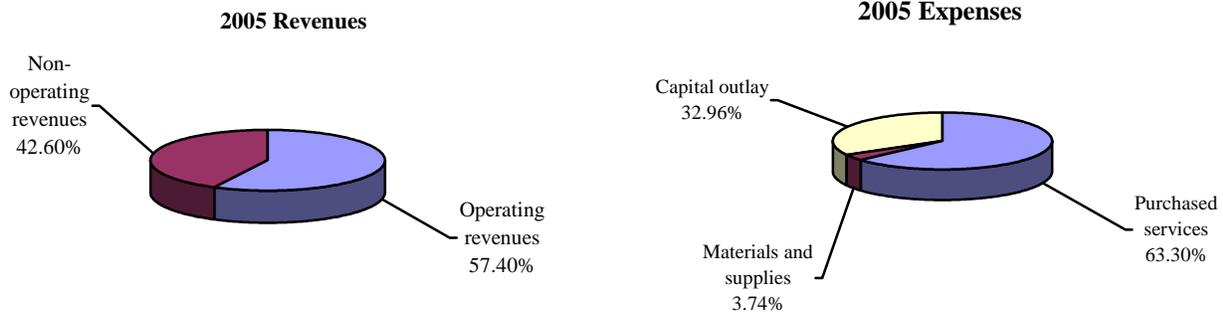
	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
State foundation	\$ 243,089	\$ 211,674
Total operating revenue	<u>243,089</u>	<u>211,674</u>
<u>Operating Expenses:</u>		
Purchased services	206,935	105,521
Materials and supplies	179,120	6,229
Capital outlay	<u>1,174</u>	<u>54,936</u>
Total operating expenses	<u>387,229</u>	<u>166,686</u>
<u>Non-operating revenues:</u>		
Federal and state grants	180,646	156,823
Interest income	<u>818</u>	<u>266</u>
Total non-operating revenues	<u>181,464</u>	<u>157,089</u>
Change in net assets	37,324	202,077
Net assets at beginning of year	<u>219,343</u>	<u>17,266</u>
Net assets at end of year	<u>\$ 256,667</u>	<u>\$ 219,343</u>

The charts below illustrate the revenues and expenses for the School during fiscal 2006 and 2005.



**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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



Current Financial Related Activities

The School is sponsored by the Ridgedale Local School District. The School relies on the State Foundation Funds as well as the Federal Sub-Grants to provide the monies necessary to begin the start-up of a technology oriented educational program. These funds will help expand the current program.

The future of the School is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the School to pursue other State and Federal sub grants as they become available.

In conclusion, the School has committed itself to providing state of the art technology based educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the School.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Kim Reynolds, Treasurer, Ridgedale Community School, 3103 Hillman-Ford Road, Morral, Ohio 44730.

**BASIC
FINANCIAL STATEMENTS**

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 277,824
Receivables:	
Intergovernmental.	729
	<hr/>
Total assets	278,553
	<hr/>
Liabilities:	
Current liabilities:	
Accounts payable	3,176
Due to other governments.	18,710
	<hr/>
Total liabilities	21,886
	<hr/>
Net Assets:	
Restricted for:	
State funded programs.	5,820
Federally funded programs	2,922
Unrestricted	247,925
	<hr/>
Total net assets	\$ 256,667
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating revenues:	
State foundation	\$ 243,089
Total operating revenues.	<u>243,089</u>
Operating expenses:	
Purchased services.	206,935
Materials and supplies	179,120
Capital outlay.	<u>1,174</u>
Total operating expenses.	<u>387,229</u>
Operating loss.. . . .	<u>(144,140)</u>
Non-operating revenues:	
Federal and state grants	180,646
Interest income.	<u>818</u>
Total non-operating revenues	<u>181,464</u>
Change in net assets	37,324
Net assets at beginning of year	<u>219,343</u>
Net assets at end of year	<u><u>\$ 256,667</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from State foundation.	\$ 243,089
Cash payments for purchased services	(185,049)
Cash payments to suppliers for goods and services . .	(179,120)
Cash payments for other expenses.	<u>(1,174)</u>
Net cash used in operating activities	<u>(122,254)</u>
Cash flows from noncapital financing activities:	
Federal and state grants.	<u>256,986</u>
Net cash provided by noncapital financing activities	<u>256,986</u>
Cash flows from investing activities:	
Interest received	<u>818</u>
Net cash provided by investing activities	<u>818</u>
Net increase in cash and cash equivalents	135,550
Cash and cash equivalents at beginning of year . . .	<u>142,274</u>
Cash and cash equivalents at end of year	<u><u>\$ 277,824</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (144,140)
Changes in assets and liabilities:	
Increase in accounts payable.	3,176
Increase in due to other governments	<u>18,710</u>
Net cash used in operating activities	<u><u>\$ (122,254)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Ridgedale Community School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is an approved tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect their tax exempt status. The School's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered through distance learning technologies as well as other alternative teaching strategies and services to students in the grades kindergarten through 12th. The School is a public school that provides an alternative to the traditional educational setting. The School serves a student population that may include, but is not limited to, home schooled children, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, and students who need an alternative to the traditional classroom for various reasons. The School, which is part of the state's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was certified by the State of Ohio Secretary of State as a non-profit organization on June 25, 2002, and began operations in May 2004. The School was approved for operation under a contract with the Ridgedale Local School District (the "Sponsor") for a five year period commencing July 1, 2003. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under the direction of a five-member Board of Directors. The School Board of Directors is appointed by the following. The Sponsor's Board of Education appoints (3) representatives from its School District and, these representatives appoint (2) other persons who are neither officers nor employees of the Sponsor School District, one of whom shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the School, and one who represents the interests of parents and students served by the conversion school. The Sponsor's treasurer shall be a non-voting ex officio member of the conversion school's Board of Directors. A vacancy on the Board of Directors will be appointed for the remaining term by the agency that has representation. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School is a component unit of Ridgedale Local School District.

The School has developed a cooperative arrangement with the Sponsor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash and Investments

All monies received by the School are deposited in a demand deposit account.

E. Capital Assets

The School maintains a capitalization threshold of \$2,500. Donated capital assets are recorded at their fair market value on the date donated. The School did not have any assets meeting the capitalization threshold or any donated capital assets.

F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

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

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

H. Intergovernmental Revenue

The School currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education (ODE), the Electronic Management Information System Grant, and other competitive federal and state grants through ODE. Revenues received from programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

I. Estimates

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

NOTE 3 - DEPOSITS

At June 30, 2006, the carrying amount of all School deposits was \$277,824. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$81,039 of the School's bank balance of \$281,039 was uncollateralized, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

NOTE 4 - RISK MANAGEMENT

Ohio Rev. Code Section 3314.03(11)(b) requires that the governing authority of each community school is required to purchase liability insurance, or otherwise provide for the potential liability of the school. As of the date of this report the School has not purchased the required liability insurance or otherwise made any provisions for the potential liability of the School.

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The School participates in the Federal Charter School Grant Program, through the Ohio Department of Education. Under this program, the School was awarded \$150,000 during the year 2005. Of this total, \$75,000 was received in fiscal 2005 and the remaining \$75,000 was recorded as a receivable at June 30, 2005. This receivable was collected during fiscal year 2006 and used to offset start-up costs of the School. Revenue received from this program is recognized as state and federal grants in the accompanying financial statements. The School also participates in the Ohio Reads, IDEA Part B, Title VI-B, Title I, Title V, Drug Free Schools, and Title II-A grants. Of the grants awarded, \$729 was receivable at June 30, 2006. This amount is presented as an intergovernmental receivable on the financial statements. All intergovernmental receivables are considered collectible in full due to the current year guarantee of Federal funds.

NOTE 6 - PURCHASED SERVICES

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

Professional and technical services	\$ 177,070
Training and professional development	28,823
Repair services	404
Travel, mileage and meetings	244
Miscellaneous	<u>394</u>
Total	<u>\$ 206,935</u>

NOTE 7 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School has not been reviewed as of June 30, 2006. The School does not anticipate any significant adjustments to state funding for fiscal year 2007, as a result of the reviews which have yet to be completed.

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

NOTE 8 - SERVICE CONTRACTS

A. Tri-Rivers Educational Computer Association

The School entered into an agreement on May 19, 2005, for the 2005-06 school years with the Tri-Rivers Educational Computer Association (TRECA) for planning, instructional, administrative and technical services required for the operation of the School. Under this contract, TRECA is required to provide the following services:

1. Via online delivery, its standardized digital curriculum, as described at the website of the TRECA Digital Academy.
2. Cooperate with the School in conducting assessments and in developing a draft evaluation team report as part of any required initial evaluation of a Suspected Disabled Student or reevaluation of a Suspected Disabled or Disabled Student.
3. Provide for the participation of the teacher(s) of the Disabled Student, in person or by telephone, in IEP or related meetings.
4. Communicate with the School regarding educational or related services that are mandated by a Disabled Student's IEP but which TRECA has reason to believe are not being provided. TRECA shall also communicate with the School regarding any Disabled or Suspected Disabled Student who requires assessments as part of an initial evaluation or reevaluation and/or the development of a draft evaluation team report.
5. Provide such other services, including but not limited to the standard hardware and software package, and the standard technical and administrative services, as are provided generally by TRECA to Students.

For these services, the School is required to pay the following fees to TRECA:

1. Annual Fee - The School shall pay \$15,000 for the 2005 - 2006 school year for services acquired from TRECA. The School made this required payment during fiscal year 2006.
2. Tier One Enrollment - The School shall pay \$500 per student per academic year, prorated for the portion of the academic year for which a student is enrolled in the School and educated by TRECA for those students receiving Tier One Enhancement Services. Students who are provided with a modified curriculum, but who are not placed in TRECA's online special education resource room shall be regarded as receiving Tier One Enhancement Services.
3. Tier Two Enrollment - The School shall pay between \$1,500 and \$21,000 per student per academic year, prorated for the portion of the academic year for which a student is enrolled in the School and educated by TRECA for those students receiving Tier Two Enhancement Services. Students who are placed in TRECA's online special education resource room for all or any part of their education shall be regarded as receiving Tier Two Enhancement Services. The fee paid for Tier Two Enhancement Services is based on the severity of the Disabled Student's handicap as outlined in the TRECA Enhancement Services exhibit to the Comprehensive Services Agreement between the School and TRECA.

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

NOTE 8 - SERVICE CONTRACTS - (Continued)

The following payments were made in fiscal year 2006 from the School to TRECA:

Professional and technical services	\$ 57,529
Instructional equipment	<u>24,038</u>
Total	<u>\$ 81,567</u>

B. Ridgedale Local School District

The Community School Sponsorship Contract between the School and Ridgedale Local School District (the "Sponsor") outlined the specific payments to be made by the School to Ridgedale Local School District during fiscal year 2006. In addition, the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the School by Ridgedale Local School District. The following payments were made in fiscal year 2006 from the School to Ridgedale Local School District:

Professional and technical services	\$ 118,625
Fiscal office supplies	<u>896</u>
Total	<u>\$ 119,521</u>

Additionally, the contract allows, based on mutual agreement, for the payment of \$1,500 per student per year from the School to the Sponsor.

NOTE 9 - PENSION PLANS

The School has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately is responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

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

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

NOTE 9 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for fiscal year ended 2006 were paid by the School's Sponsor.

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contribution for pension obligations to STRS for fiscal year ended 2006 were paid by the School's Sponsor.

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

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

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

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

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

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

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.



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

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Directors
Ridgedale Community School
3103 Hillman-Ford Road
Morral, OH 43337

We have audited the financial statements of the Ridgedale Community School (the "School"), Marion County, Ohio, a component unit of Ridgedale Local School District, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we reported to the management in a separate letter dated December 27, 2006.

This report is intended solely for the information and use of the management and Board of Directors of Ridgedale Community School, and is not intended to be and should not be used by anyone other than these specified parties.

Julian & Grube, Inc.
December 27, 2006

**RIDGEDALE COMMUNITY SCHOOL
MARION COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-RCS-001	Ohio Revised Code Section 3314.03(A)(11)(b) and the School Contract, Article III, Responsibilities of the School, states the governing authority will purchase liability insurance, or otherwise provide for the potential liability of the school.	Yes	Fully corrected
2005-RCS-002	Ohio Administrative Code Section 117-6-07 requires the fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Revised Code Section 3314.011.	Yes	Fully corrected



Mary Taylor, CPA
Auditor of State

RIDGEDALE COMMUNITY SCHOOL

MARION 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
MARCH 6, 2007