

**CHIPPEWA LOCAL SCHOOL DISTRICT WAYNE COUNTY, OHIO**

**SINGLE AUDIT**

**FOR YEAR ENDED JUNE 30, 2006  
CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Chippewa Local School District  
56 N. Portage Street  
Doylestown, Ohio 44230

We have reviewed the *Independent Accountants' Report* of the Chippewa Local School District, Wayne County, prepared by Perry & Associates, Certified Public Accountants, A.C., 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 Chippewa Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 31, 2008

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## TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - General Fund .....	19
Statement of Net Assets – Proprietary Fund.....	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund .....	22
Statement of Fiduciary Net Assets – Fiduciary Funds.....	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	24
Notes to the Basic Financial Statements.....	25
Supplementary Data:	
Schedule of Federal Awards Receipts and Expenditures.....	50
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	51

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**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**TABLE OF CONTENTS**

<b><u>TITLE</u></b>	<b><u>PAGE</u></b>
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	52
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	54
Schedule of Findings and Questioned Costs - OMB Circular A -133 § .505 .....	56
Schedule of Prior Audit Findings - OMB Circular A -133 § .505 .....	59

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**INDEPENDENT ACCOUNTANTS' REPORT**

February 1, 2008

Chippewa Local School District  
Wayne County  
57 N. Portage St  
Doylestown, Ohio 44230

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of **Chippewa Local School District, Wayne County, Ohio** (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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,

**Perry and Associates**  
Certified Public Accountants, A.C.

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

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

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$439,885, which represents a 13.05% increase from 2005.
- General revenues accounted for \$9,842,439 in revenue, or 85.95% of all revenues. Program specific revenues in the form of charges for services and sales, and grants and contributions accounted for \$1,609,065, or 14.05% of total revenues of \$11,451,504.
- The District had \$11,011,619 in expenses related to governmental activities; \$1,609,065 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,842,439 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$9,851,212 in revenues and other financing sources and \$9,346,254 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance increased \$504,958 from a deficit of \$300,958 to a positive balance of \$204,000.
- The Permanent Improvement fund, the other major fund, had revenues of \$303,628 and expenditures of \$642,371. During 2006, the permanent improvement fund's fund balance decreased \$338,743 from \$516,547 to \$177,804.

**Using this Basic Financial Statements Report**

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

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

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" the Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. The District's internal service fund accounts for insurance benefits. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its programs which are private in purpose. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for other governments and individuals. These activities are reported in the agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-49 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 6,824,036	\$ 6,146,684
Capital assets	<u>2,989,728</u>	<u>2,716,818</u>
Total assets	<u>9,813,764</u>	<u>8,863,502</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,484,848	5,024,948
Long-term liabilities	<u>517,719</u>	<u>467,242</u>
Total liabilities	<u>6,002,567</u>	<u>5,492,190</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	2,989,728	2,716,818
Restricted	786,826	1,292,378
Unrestricted (deficit)	<u>34,643</u>	<u>(637,884)</u>
Total net assets	<u>\$ 3,811,197</u>	<u>\$ 3,371,312</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$3,811,197. At year-end, unrestricted net assets were \$34,643.

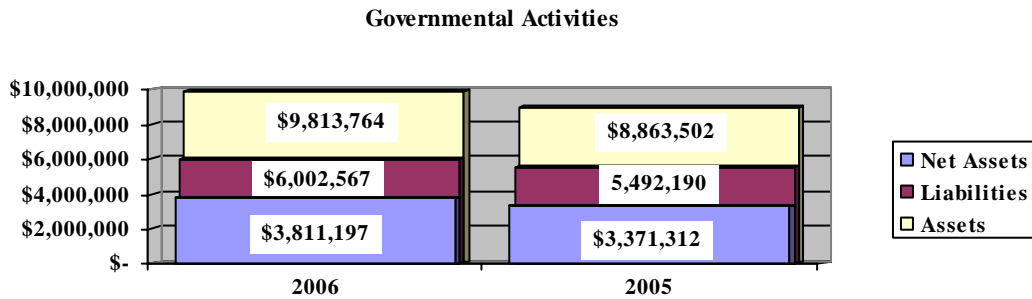
**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

At year-end, capital assets represented 30.46% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment and furniture, vehicles, and library books. At June 30, 2006, capital assets, net of related debt to acquire the capital assets, were \$2,989,728. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$786,826, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$34,643.

The table below illustrates the District's assets, liabilities and net assets at June 30, 2006 and 2005:



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

	<b>Change in Net Assets</b>	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 635,495	\$ 628,384
Operating grants and contributions	940,601	891,024
Capital grants and contributions	32,969	32,828
General revenues:		
Property taxes	4,092,748	3,466,471
Grants and entitlements	5,607,355	5,585,875
Investment earnings	98,839	35,682
Other	43,497	19,994
<b>Total revenues</b>	<b>11,451,504</b>	<b>10,660,258</b>

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,677,707	\$ 4,712,076
Special	816,951	793,417
Vocational	144,483	143,578
Other	361,576	592,491
Support services:		
Pupil	264,747	274,723
Instructional staff	467,608	452,613
Board of education	32,448	34,425
Administration	980,777	899,439
Fiscal	325,934	285,516
Operations and maintenance	1,189,764	896,225
Pupil transportation	618,718	589,979
Central	107,318	89,476
Operations of non-instructional services:		
Food service operations	455,192	415,309
Other non-instructional services	104,643	117,915
Extracurricular activities	<u>463,753</u>	<u>397,998</u>
Total expenses	<u>11,011,619</u>	<u>10,695,180</u>
Change in net assets	439,885	(34,922)
Net assets at beginning of year	<u>3,371,312</u>	<u>3,406,234</u>
Net assets at end of year	<u>\$ 3,811,197</u>	<u>\$ 3,371,312</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$439,885. Total governmental expenses of \$11,011,619 were offset by program revenues of \$1,609,065 and general revenues of \$9,842,439. Program revenues supported 14.61% of the total governmental expenses.

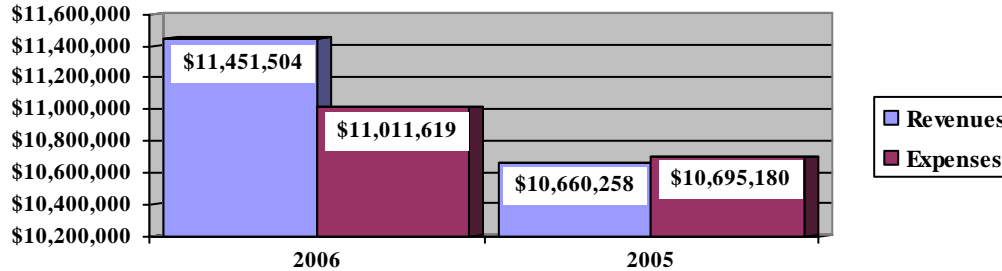
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.71% of total governmental revenue. Real estate property is reappraised every six years.

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

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

**Governmental Activities - Revenues and Expenses**



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

	<b>Governmental Activities</b>			
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,677,707	\$ 4,389,904	\$ 4,712,076	\$ 4,362,819
Special	816,951	377,155	793,417	356,727
Vocational	144,483	144,483	143,578	143,578
Other	361,576	361,576	592,491	592,491
Support services:				
Pupil	264,747	264,714	274,723	274,723
Instructional staff	467,608	437,399	452,613	452,613
Board of education	32,448	32,448	34,425	34,425
Administration	980,777	975,812	899,439	885,439
Fiscal	325,934	325,734	285,516	253,459
Operations and maintenance	1,189,764	1,148,805	896,225	869,264
Pupil transportation	618,718	618,420	589,979	589,979
Central	107,318	107,318	89,476	89,476
Operations of non-instructional services:				
Food service operations	455,192	(38,913)	415,309	14,181
Other non-operating services	104,643	7,568	117,915	14,284
Extracurricular activities	<u>463,753</u>	<u>250,131</u>	<u>397,998</u>	<u>209,486</u>
<b>Total expenses</b>	<u>\$ 11,011,619</u>	<u>\$ 9,402,554</u>	<u>\$ 10,695,180</u>	<u>\$ 9,142,944</u>

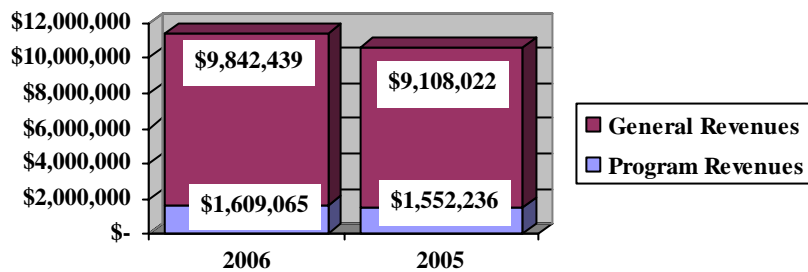
**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 87.87% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.39%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$750,288, which is less than last year's total of \$828,872. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance (Deficit) <u>June 30, 2005</u>	Increase (Decrease)
General	\$ 204,000	\$ (300,958)	\$ 504,958
Permanet Improvement	177,804	516,547	(338,743)
Other Governmental	<u>368,484</u>	<u>613,283</u>	<u>(244,799)</u>
Total	<u>\$ 750,288</u>	<u>\$ 828,872</u>	<u>\$ (78,584)</u>

**General Fund**

The District's general fund's fund balance increased by \$504,958. The table that follows assists in illustrating the financial activities and fund balance of the general fund.



**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 3,861,681	\$ 3,140,386	22.97 %
Earnings on investments	89,546	33,848	164.55 %
Intergovernmental	5,607,355	5,580,725	0.48 %
Classroom materials and fees	3,542	34,931	(89.86) %
Other revenues	<u>30,769</u>	<u>31,093</u>	(1.04) %
Total	<u>\$ 9,592,893</u>	<u>\$ 8,820,983</u>	8.75 %
<b><u>Expenditures</u></b>			
Instruction	\$ 5,395,537	\$ 5,496,906	(1.84) %
Support services	3,679,797	3,432,416	7.21 %
Extracurricular activities	<u>224,545</u>	<u>222,877</u>	0.75 %
Total	<u>\$ 9,299,879</u>	<u>\$ 9,152,199</u>	1.61 %

The increase in tax revenue is due to an increase in the assessed valuation of taxable property within the District's boundaries. The increase in earnings on investments is due primarily to the increase in interest rates by the Federal Reserve Bank. The decrease in classroom materials and fees, though a large percentage is immaterial when the dollar amount is considered as part of the whole. There were not significant changes to the expenditures between years.

***General Fund Budgeting Highlights***

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

During fiscal 2006, the District did not amend its estimated resources for the general fund. For the general fund, final budgeted revenues and other financing sources were \$9,527,168, which was the same as the original budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal 2006 were \$9,949,195. This represents a \$422,027 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$10,268,973 were decreased to \$9,888,243 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$9,260,672, which was \$627,571 less than the final budgeted appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$2,989,728 invested in land, land improvements, buildings and improvements, equipment and furniture, vehicles, and library books. This entire amount is reported in governmental activities. The following table shows fiscal 2006 and 2005 balances:

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 1,098,217	\$ 1,009,881
Building and improvements	1,278,426	1,012,522
Equipment and furniture	268,251	280,059
Vehicles	227,123	265,802
Library books	<u>117,711</u>	<u>148,554</u>
<b>Total</b>	<b><u>\$ 2,989,728</u></b>	<b><u>\$ 2,716,818</u></b>

The overall increase in capital assets of \$272,910 is primarily due to capital asset additions of \$457,236 being greater than the \$184,326 in depreciation expense for fiscal 2006.

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

***Debt Administration***

At June 30, 2006, the District had no long-term debt.

See Note 9 to the basic financial statements for additional information on the District's long-term obligations.

**Current Financial Related Activities**

The District continues to provide an excellent program to our students, parents and community while spending less than the average Ohio school district. The school district spends 11.1% less than the state average for instructional and support services. The Board of Education and management team have carefully managed general fund budgets in order to minimize the need for additional local support. The district had requested an additional two mills to be levied against tax valuations in 2006 for a levy originally approved in November of 1992. The district received 56.9% of its operating revenue from the State of Ohio and does rely on sharing of revenue from both the local taxpayer and the school funding formula. The state share of funding increased slightly from the prior year by .4%.

The District experienced continued improvement in student achievement in fiscal year 2006. This improvement was demonstrated by the "effective" designation of our District on the Ohio Department of Education district report card due to the achievement of 15 out of 18 indicators. The District was able to provide the services necessary to obtain the student achievement while spending \$749.00 less than the average Ohio school district and \$155.00 less than the average for schools within Wayne County.

The District has a low commercial and industrial tax base and relies heavily on residential support for local funding. The District valuation includes residential and agricultural values that equal 85% of the total. Those values experienced a 1.9% increase for 2006 with total values increasing 1.8% from the prior year. Valuation per pupil remains below the county and state averages by 9.7% and 24.9% respectively. The effective amount of mills levied against residential and agricultural properties in 2006 was 23.13 (2003 values).

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

The District has also experienced little increase in state funding through the state foundation program. The increase for fiscal year 2006 was slightly above one percent. The small increase was attributed to conservative amounts of per pupil allocations and a five year trend of decreased enrollment. The small increase in revenue has forced the district to deal with a deficit projected for the 2006/2007 fiscal year. The Board of Education has been working on a plan to meet the needs of the district program while trying to address revenue shortfalls. They authorized a Financial Task Force to investigate options available to the district and to communicate the problems associated with reaching the desired operating budget.

The District made significant reductions for the fiscal year 2006 budgeted expenditures in response to the projected deficit. The Board of Education is preparing to go back to the voters in 2006 to again propose an emergency property tax levy that will allow reinstatement of some of the reductions made after failure of the levy in March 2006 and to avoid a future operating deficit. The Board of Education has attempted to maintain the levels of student achievement obtained in recent years with less than state average spending, and hopes that with minimal requests for additional local contribution, the district will continue to receive the resources necessary for the educational excellence of all those students being served.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Steven Workman, Treasurer, Chippewa Local School District, 56 North Portage Street, Doylestown, Ohio, 44230-1398.

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,805,381
Cash with fiscal agent. . . . .	389,728
Receivables:	
Taxes . . . . .	4,363,262
Accounts . . . . .	45
Intergovernmental . . . . .	218,766
Prepayments . . . . .	35,522
Materials and supplies inventory . . . . .	11,332
Capital assets:	
Land . . . . .	1,098,217
Depreciable capital assets, net . . . . .	<u>1,891,511</u>
Capital assets, net . . . . .	<u>2,989,728</u>
 Total assets. . . . .	 <u>9,813,764</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	49,527
Accrued wages and benefits . . . . .	1,032,076
Pension obligation payable. . . . .	230,293
Intergovernmental payable . . . . .	29,190
Claims payable. . . . .	103,916
Deferred revenue . . . . .	4,039,846
Long-term liabilities:	
Due within one year. . . . .	85,541
Due in more than one year . . . . .	<u>432,178</u>
 Total liabilities . . . . .	 <u>6,002,567</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	2,989,728
Restricted for:	
Capital projects . . . . .	184,487
Student activities . . . . .	67,178
State funded programs. . . . .	194,793
Federally funded programs . . . . .	218,609
Other purposes. . . . .	121,759
Unrestricted. . . . .	<u>34,643</u>
 Total net assets . . . . .	 <u>\$ 3,811,197</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 4,677,707	\$ 94,840	\$ 188,310	\$ 4,653	\$ (4,389,904)
Special . . . . .	816,951	-	439,796	-	(377,155)
Vocational . . . . .	144,483	-	-	-	(144,483)
Other . . . . .	361,576	-	-	-	(361,576)
Support services:					
Pupil. . . . .	264,747	4	29	-	(264,714)
Instructional staff . . . . .	467,608	3,827	26,382	-	(437,399)
Board of education . . . . .	32,448	-	-	-	(32,448)
Administration. . . . .	980,777	123	4,842	-	(975,812)
Fiscal. . . . .	325,934	-	-	200	(325,734)
Operations and maintenance . . . . .	1,189,764	1,690	11,153	28,116	(1,148,805)
Pupil transportation. . . . .	618,718	39	259	-	(618,420)
Central . . . . .	107,318	-	-	-	(107,318)
Operation of non-instructional services:					
Food service operations . . . . .	455,192	319,891	174,214	-	38,913
Other non-instructional services . . . . .	104,643	1,459	95,616	-	(7,568)
Extracurricular activities. . . . .	463,753	213,622	-	-	(250,131)
Total governmental activities . . . . .	<u>\$ 11,011,619</u>	<u>\$ 635,495</u>	<u>\$ 940,601</u>	<u>\$ 32,969</u>	<u>(9,402,554)</u>

**General Revenues:**

Property taxes levied for:

General purposes . . . . .	3,827,780
Capital projects . . . . .	264,968
Grants and entitlements not restricted to specific programs. . . . .	5,607,355
Investment earnings . . . . .	98,839
Miscellaneous . . . . .	43,497
Total general revenues. . . . .	<u>9,842,439</u>
Change in net assets . . . . .	439,885
<b>Net assets at beginning of year. . . . .</b>	<u>3,371,312</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 3,811,197</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 1,058,554	\$ 141,301	\$ 483,767	\$ 1,683,622
Receivables:				
Taxes . . . . .	3,691,664	671,598	-	4,363,262
Accounts . . . . .	45	-	-	45
Intergovernmental . . . . .	-	-	218,766	218,766
Prepayments . . . . .	35,522	-	-	35,522
Materials and supplies inventory . . . . .	-	-	11,332	11,332
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	121,759	-	-	121,759
Total assets . . . . .	<u>\$ 4,907,544</u>	<u>\$ 812,899</u>	<u>\$ 713,865</u>	<u>\$ 6,434,308</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 22,230	\$ 6,595	\$ 20,702	\$ 49,527
Accrued wages and benefits . . . . .	945,804	-	86,272	1,032,076
Compensated absences payable . . . . .	53,594	-	-	53,594
Pension obligation payable. . . . .	201,141	-	29,152	230,293
Intergovernmental payable. . . . .	26,013	-	3,177	29,190
Deferred revenue. . . . .	3,454,762	628,500	206,078	4,289,340
Total liabilities . . . . .	<u>4,703,544</u>	<u>635,095</u>	<u>345,381</u>	<u>5,684,020</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	26,045	105,853	16,641	148,539
Reserved for materials and supplies inventory. . . . .	-	-	11,332	11,332
Reserved for prepayments . . . . .	35,522	-	-	35,522
Reserved for property tax unavailable for appropriation . . . . .	236,902	43,098	-	280,000
Reserved for BWC refunds. . . . .	43,205	-	-	43,205
Reserved for instructional materials. . . . .	78,554	-	-	78,554
Unreserved:				
Undesignated (deficit), reported in:				
General fund . . . . .	(216,228)	-	-	(216,228)
Special revenue funds. . . . .	-	-	340,511	340,511
Capital projects funds. . . . .	-	28,853	-	28,853
Total fund balances. . . . .	<u>204,000</u>	<u>177,804</u>	<u>368,484</u>	<u>750,288</u>
Total liabilities and fund balances . . . . .	<u>\$ 4,907,544</u>	<u>\$ 812,899</u>	<u>\$ 713,865</u>	<u>\$ 6,434,308</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

<b>Total governmental fund balances</b>		\$ 750,288
<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.		2,989,728
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 43,416	
Intergovernmental revenue	<u>206,078</u>	
Total		249,494
An internal service fund is used by management to charge the costs of medical insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		285,812
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		<u>(464,125)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 3,811,197</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,861,681	\$ 262,808	\$ -	\$ 4,124,489
Charges for services. . . . .	-	-	319,891	319,891
Earnings on investments. . . . .	89,546	-	-	89,546
Extracurricular. . . . .	-	-	213,622	213,622
Classroom materials and fees . . . . .	3,542	-	98,440	101,982
Other local revenues. . . . .	30,769	11,250	1,478	43,497
Intergovernmental - State. . . . .	5,607,355	29,570	228,298	5,865,223
Intergovernmental - Federal . . . . .	-	-	601,987	601,987
Total revenue . . . . .	<u>9,592,893</u>	<u>303,628</u>	<u>1,463,716</u>	<u>11,360,237</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,436,852	27,250	242,625	4,706,727
Special. . . . .	450,076	-	369,943	820,019
Vocational. . . . .	147,033	-	-	147,033
Other. . . . .	361,576	-	-	361,576
Support services:				
Pupil. . . . .	269,128	-	32	269,160
Instructional staff . . . . .	413,706	-	28,885	442,591
Board of education . . . . .	32,448	-	-	32,448
Administration. . . . .	955,564	-	37,202	992,766
Fiscal . . . . .	323,209	4,349	-	327,558
Operations and maintenance. . . . .	981,858	610,772	12,081	1,604,711
Pupil transportation . . . . .	596,566	-	280	596,846
Central. . . . .	107,318	-	-	107,318
Operation of non-instructional services:				
Food service operations . . . . .	-	-	463,018	463,018
Other non-instructional services. . . . .	-	-	104,643	104,643
Extracurricular activities. . . . .	224,545	-	237,862	462,407
Total expenditures . . . . .	<u>9,299,879</u>	<u>642,371</u>	<u>1,496,571</u>	<u>11,438,821</u>
Excess of revenues over (under) expenditures.	<u>293,014</u>	<u>(338,743)</u>	<u>(32,855)</u>	<u>(78,584)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	258,319	-	46,375	304,694
Transfers (out). . . . .	(46,375)	-	(258,319)	(304,694)
Total other financing sources (uses) . . . . .	<u>211,944</u>	<u>-</u>	<u>(211,944)</u>	<u>-</u>
Net change in fund balances . . . . .	504,958	(338,743)	(244,799)	(78,584)
<b>Fund balances (deficit) at beginning</b>				
of year . . . . .	(300,958)	516,547	613,283	828,872
<b>Fund balances at end of year. . . . .</b>	<u>\$ 204,000</u>	<u>\$ 177,804</u>	<u>\$ 368,484</u>	<u>\$ 750,288</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Net change in fund balances - total governmental funds** \$ (78,584)

*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 depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$	457,236	
Current year depreciation		(184,326)	
Total			272,910

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	81,974
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(3,111)
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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.	166,696

<b>Change in net assets of governmental activities</b>	<b>\$ 439,885</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,666,110	\$ 3,666,110	\$ 3,974,769	\$ 308,659
Earnings on investments. . . . .	34,863	34,863	89,546	54,683
Classroom materials and fees . . . . .	35,746	35,746	3,768	(31,978)
Other local revenues . . . . .	30,973	30,973	26,730	(4,243)
Intergovernmental - State . . . . .	5,748,146	5,748,146	5,607,355	(140,791)
Total revenue . . . . .	<u>9,515,838</u>	<u>9,515,838</u>	<u>9,702,168</u>	<u>186,330</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,935,687	4,519,143	4,389,090	130,053
Special. . . . .	428,647	465,681	447,360	18,321
Vocational. . . . .	148,234	147,944	146,893	1,051
Other. . . . .	326,256	604,379	361,734	242,645
Support services:				
Pupil. . . . .	428,815	305,078	271,859	33,219
Instructional staff . . . . .	498,157	428,669	423,034	5,635
Board of education . . . . .	36,376	60,801	53,235	7,566
Administration. . . . .	921,951	959,696	936,638	23,058
Fiscal . . . . .	283,708	303,382	297,196	6,186
Operations and maintenance. . . . .	1,163,830	1,008,140	956,978	51,162
Pupil transportation . . . . .	601,404	675,637	588,788	86,849
Central. . . . .	93,056	107,409	107,398	11
Extracurricular activities. . . . .	290,852	234,964	225,512	9,452
Total expenditures . . . . .	<u>10,156,973</u>	<u>9,820,923</u>	<u>9,205,715</u>	<u>615,208</u>
Excess of revenues over (under) expenditures. . . . .	<u>(641,135)</u>	<u>(305,085)</u>	<u>496,453</u>	<u>801,538</u>
<b>Other financing sources (uses):</b>				
Transfers in. . . . .	11,330	11,330	247,027	235,697
Transfers (out) . . . . .	(112,000)	(67,320)	(54,957)	12,363
Total other financing sources (uses) . . . . .	<u>(100,670)</u>	<u>(55,990)</u>	<u>192,070</u>	<u>248,060</u>
Net change in fund balance . . . . .	(741,805)	(361,075)	688,523	1,049,598
<b>Fund balance at beginning of year . . . . .</b>	388,947	388,947	388,947	-
<b>Prior year encumbrances appropriated . . . . .</b>	54,034	54,034	54,034	-
<b>Fund balance (deficit) at end of year. . . . .</b>	<u>\$ (298,824)</u>	<u>\$ 81,906</u>	<u>\$ 1,131,504</u>	<u>\$ 1,049,598</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Assets:</b>	
Current assets:	
Cash with fiscal agent . . . . .	\$ 389,728
Total assets . . . . .	<u>389,728</u>
<b>Liabilities:</b>	
Current liabilities:	
Claims payable . . . . .	<u>103,916</u>
Total liabilities . . . . .	<u>103,916</u>
<b>Net assets:</b>	
Unrestricted. . . . .	<u>285,812</u>
Total net assets . . . . .	<u><u>\$ 285,812</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 1,522,146
Other. . . . .	69,385
Total operating revenues . . . . .	1,591,531
 <b>Operating expenses:</b>	
Personal services. . . . .	9,864
Purchased services. . . . .	346,218
Claims . . . . .	1,077,603
Other. . . . .	443
Total operating expenses . . . . .	1,434,128
 Operating income. . . . .	157,403
 <b>Nonoperating revenues:</b>	
Interest revenue . . . . .	9,293
Total nonoperating revenues . . . . .	9,293
 Change in net assets . . . . .	166,696
 <b>Net assets at beginning of year . . . . .</b>	<b>119,116</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 285,812</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

		<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>		
Cash received from charges for services. . . . .	\$	1,522,146
Cash received from other operations. . . . .		69,385
Cash payments for personal services . . . . .		(9,864)
Cash payments for purchased services . . . . .		(346,218)
Cash payments for claims. . . . .		(1,099,874)
Cash payments for other expenses . . . . .		(443)
		135,132
Net cash provided by operating activities . . . . .		135,132
<b>Cash flows from investing activities:</b>		
Interest received . . . . .		9,293
		9,293
Net cash provided by investing activities . . . . .		9,293
Net increase in cash and cash equivalents. . . . .		144,425
<b>Cash and cash equivalents at beginning of year . . . .</b>		<b>245,303</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$</b>	<b>389,728</b>
		389,728
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income . . . . .	\$	157,403
Changes in assets and liabilities:		
Decrease in claims payable. . . . .		(22,271)
		(22,271)
Net cash provided by operating activities. . . . .	<b>\$</b>	<b>135,132</b>
		135,132

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 6,162	\$ 23,393
Total assets. . . . .	<u>6,162</u>	<u>\$ 23,393</u>
<b>Liabilities:</b>		
Intergovernmental payable . . . . .	-	\$ 8,240
Due to students . . . . .	<u>-</u>	<u>15,153</u>
Total liabilities . . . . .	<u>-</u>	<u>\$ 23,393</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	<u>6,162</u>	
Total net assets . . . . .	<u>\$ 6,162</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

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

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Gifts and contributions. . . . .	\$ 880
Total additions. . . . .	880
<b>Reductions:</b>	
Scholarships awarded . . . . .	1,375
Change in net assets . . . . .	(495)
<b>Net assets at beginning of year. . . . .</b>	<b>6,657</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 6,162</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## **NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Chippewa 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 currently ranks as the 365th largest in terms of total enrollment among the 615 public school districts in the state. The District is staffed by 54 non-certified employees and 90 certified full-time teaching personnel who provide services to 1,526 students and other community members.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity”, and as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”. The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general - operations, food services, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:



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

*JOINTLY GOVERNED ORGANIZATIONS*

Midland Council of Governments

The District is a member of the Midland Council of Governments (COG), which was organized as a council-of-governments entity in accordance with Ohio statute. While the District and the other 21 members are assessed annual user fees for data services, none of the members retain an ongoing financial interest in the COG.

Wayne County Career Center

The Wayne County Career Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The Career Center accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating (OSBA) Program

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

*Permanent Improvement Fund* - The permanent improvement fund is used to account for financial resources to be used for the acquisition, construction or improvement of capital facilities.

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

Other governmental funds of the District are used to account for (a) grants and other resources whose use is restricted to a particular purpose; and (b) food service operations.

### *PROPRIETARY FUND*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

*Internal Service Fund* - An internal service fund is used to account for the financing of goods or services provided by one fund or department to other funds or departments of the District, or to other governments, on a cost-reimbursement basis. The internal service fund of the District accounts for a self-insurance program which provides health/medical benefits to employees.

### *FIDUCIARY FUNDS*

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

## **C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

### **D. Basis of Accounting**

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

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

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

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

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

### **E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Wayne County Budget Commission for tax rate determination.

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

3. 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 District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate of Estimated Resources issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level within each function for the general fund and at the fund level of expenditures for all other funds, which are the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the object level within each function for the general fund and at the fund level of expenditures for all other funds, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any object within each function for the general fund and the fund level for all other funds must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the object level within each function for the general fund and the fund level for all other funds.

Encumbrance accounting is utilized by District funds during the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting for the general fund.

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

### **F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. 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 basic financial statements.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the internal service fund, and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$89,546, which includes \$51,124 assigned from other funds.

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

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

### **G. Inventory**

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

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

### **H. Capital Assets**

General capital assets are those assets specifically related to activities reported in the governmental funds, and 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.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for acquisitions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. For fiscal 2006, the District maintained a capitalization threshold of \$2,500. 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. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years
Textbooks	20 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets. There were no "interfund receivables/payables" at June 30, 2006.

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service and all employees with at least twenty (20) years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of liability is not reported.

### **K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

### **L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, instructional materials, and Bureau of Workers' Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

### **M. 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 the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

### **N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.



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

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

### **O. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

### **P. Parochial School**

Within the District boundaries, St. Peter & Paul Catholic School is operated through the Catholic Diocese. Current state legislation provides funding to the parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial school. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund for financial reporting purposes.

### **Q. Estimates**

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

### **R. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside for BWC refunds, and to establish an instructional materials reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

### **S. Interfund Activity**

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

### **T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE**

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

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

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

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

**B. Deficit Fund Balances**

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Ohio Reads	\$ 985
Title I Disadvantaged Children	24,076

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

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE – (Continued)**

**C. Noncompliance**

In noncompliance with ORC Section 5705.39, the following funds had appropriations in excess of estimated resources for the year ended June 30, 2006:

<u>Funds</u>	<u>Deficit</u>
General	\$48,620
Public School Support	4,802
District Managed Activity	7,205
Auxillary Services	67,357
Management Information Systems	25,300
Public School Preschool	94,813
Ohio Reads	14,532
Miscellaneous State	1,994
Title VI-B	168,013
Title I	87,997
Reducing Class Size	65,495
Permanent Improvement	347,616
SchoolNet Equipment	13,143
Food Services	34,966
Special Services Rotary	48,418
Internal Services Rotary	3,951
Student Managed Activities	20,754

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

#### **NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

#### **A. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$107,791. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$200,000 of the District's bank balance of \$322,674 was covered by the Federal Deposit Insurance Corporation, while \$122,674 was exposed to custodial risk as discussed below.

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had a cash balance with the Ohio Mid-Eastern Regional Education Service Agency Self-funded Insurance Program (the "Program") of \$389,728. The balance is covered by federal depository insurance or by collateral held by a qualified third-party trustee in the name of the Program's fiscal agent. This amount is not part of the internal cash pool and is reported on the financial statements as "Cash with Fiscal Agent".

**C. Cash on Hand**

At year-end, the District had \$25 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**D. Investments**

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

<u>Investment type</u>	<u>Investment Securities</u>	
	<u>Balance at</u> <u>Fair Value</u>	<u>6 months or</u> <u>less</u>
STAR Ohio	<u>\$ 1,727,120</u>	<u>\$ 1,727,120</u>
	<u>\$ 1,727,120</u>	<u>\$ 1,727,120</u>

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>1,727,120</u>	<u>100.00</u>
	<u>\$ 1,727,120</u>	<u>100.00</u>

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 107,791
Cash with fiscal agent	389,728
Investments	1,727,120
Cash on hand	<u>25</u>
Total	<u>\$ 2,224,664</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,195,109
Private purpose trust	6,162
Agency	<u>23,393</u>
Total	<u>\$ 2,224,664</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers included the following, as reported in the fund financial statements for the fiscal year ended June 30, 2006:

	<u>Amount</u>
<u>Transfers from General fund to:</u>	
Nonmajor Governmental funds	\$ 46,375
<u>Transfers from Nonmajor Governmental funds to:</u>	
General fund	<u>258,319</u>
Total	<u>\$ 304,694</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

## NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

The District receives property taxes from Wayne 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 tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

**NOTE 6 - PROPERTY TAXES - (Continued)**

At June 30, 2006, the amounts available as an advance were \$236,902 in the General fund and \$43,098 in the Permanent Improvement fund. These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2005 were \$330,116 in the General fund, \$19,874 in the Emergency Levy fund, and \$22,410 in the Permanent Improvement fund.

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

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and public utility/minerals real estate	\$ 135,910,280	86.02	\$ 149,855,320	86.90
Commercial/industrial real estate	9,843,450	6.23	10,459,210	6.07
Public utility tangible property	7,795,310	4.93	7,795,310	4.52
General tangible property	<u>4,443,204</u>	<u>2.82</u>	<u>4,336,820</u>	<u>2.51</u>
Total	<u>\$ 157,992,244</u>	<u>100.00</u>	<u>\$ 172,446,660</u>	<u>100.00</u>
Tax rates per \$1,000 of assessed value:				
General operations	\$ 41.10		\$ 41.10	
Permanent improvements	1.90		1.90	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes and accounts (billings for user charged services and student fees), and grants (reported as "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 guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes	\$ 4,363,262
Accounts	45
Intergovernmental	<u>218,766</u>
Total	<u>\$ 4,582,073</u>

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



**NOTE 8 - CAPITAL ASSETS**

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

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/06</u>
<b><u>Governmental Activities</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,009,881	\$ 88,336	\$ -	\$ 1,098,217
Total capital assets, not being depreciated	<u>1,009,881</u>	<u>88,336</u>	<u>-</u>	<u>1,098,217</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	473,728	-	-	473,728
Buildings and improvements	4,464,446	338,500	-	4,802,946
Equipment and furniture	1,284,438	30,400	-	1,314,838
Vehicles	1,016,703	-	-	1,016,703
Library books	<u>616,859</u>	<u>-</u>	<u>-</u>	<u>616,859</u>
Total capital assets, being depreciated	<u>7,856,174</u>	<u>368,900</u>	<u>-</u>	<u>8,225,074</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(473,728)	-	-	(473,728)
Buildings and improvements	(3,451,924)	(72,596)	-	(3,524,520)
Equipment and furniture	(1,004,379)	(42,208)	-	(1,046,587)
Vehicles	(750,901)	(38,679)	-	(789,580)
Library books	<u>(468,305)</u>	<u>(30,843)</u>	<u>-</u>	<u>(499,148)</u>
Total accumulated depreciation	<u>(6,149,237)</u>	<u>(184,326)</u>	<u>-</u>	<u>(6,333,563)</u>
Governmental activities capital assets, net	<u>\$ 2,716,818</u>	<u>\$ 272,910</u>	<u>\$ -</u>	<u>\$ 2,989,728</u>

Depreciation expense was charged to governmental functions as follows:

<b><u>Instruction:</u></b>	
Regular	\$ 89,973
Special	955
<b><u>Support Services:</u></b>	
Instructional staff	31,467
Administration	953
Operations and maintenance	21,325
Pupil transportation	34,981
Extracurricular activities	1,346
Food service operations	<u>3,326</u>
Total depreciation expense	<u>\$ 184,326</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. During fiscal 2006, the following changes occurred to the long-term obligations of governmental activities:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Compensated absences	\$ 467,242	\$ 99,454	\$ (48,977)	\$ 517,719	\$ 85,541
Total long-term obligations, governmental activities	<u>\$ 467,242</u>	<u>\$ 99,454</u>	<u>\$ (48,977)</u>	<u>\$ 517,719</u>	<u>\$ 85,541</u>

Compensated absences will be paid out of the fund from which the employee is paid, usually the General fund.

**B. Legal Debt Margin**

The Ohio Revised Code states that the voted net general obligation debt of the District shall not exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 0.1% of the assessed valuation of the District. At June 30, 2006, the effects of these debt limitations are a legal voted debt margin of \$15,520,199 and a legal unvoted debt margin of \$172,447.

**NOTE 10 - EMPLOYEE BENEFITS**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. The superintendent and treasurer earn 15 days of vacation per year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers, elementary, middle and high school principals 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 fifteen days per year for all personnel. The total lifetime maximum sick leave accumulation is 270 days for certified personnel and 240 days for classified personnel. Upon retirement, payment is made for one-fourth of the accrued, but unused, sick leave balance to a maximum of 61 days for certified employees and classified employees.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District contracted with Harcum - Hyre Insurance Company for general liability insurance, property insurance, and boiler coverage. Liability coverage is limited to \$2,000,000 per claim and the boiler and property insurance carries a limitation of \$29,302,212 in the aggregate with a \$1,000 deductible.

**NOTE 11 - RISK MANAGEMENT – (Continued)**

Vehicles are covered by Booker/Indiana Insurance Company and hold a \$100 deductible for collision. Automobile liability coverage has a \$2,000,000 limit for collision, a \$2,000,000 limit per accident for bodily injury and a \$5,000 limit for medical payments.

Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior fiscal year.

**B. Employee Health Insurance**

Major medical, hospitalization, dental, life, and/or disability coverage is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several school districts within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The plan is administered through OME-RESA and provides stop loss protection of \$30,000 per individual per year. The claims liability of \$103,916 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", and as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the current and prior fiscal year are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 126,187	\$ 1,077,603	\$ (1,099,874)	\$ 103,916
2005	50,796	1,093,315	(1,017,924)	126,187

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

**C. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating 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 districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

## NOTE 12 - PENSION PLANS

### A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$208,831, \$209,728, and \$228,388, respectively; 49% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$105,744 represents the unpaid contribution for fiscal year 2006.

### B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio 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 Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

## **NOTE 12 - PENSION PLANS - (Continued)**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2006 and 2005, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$740,584, \$768,962, and \$716,636, respectively; 86% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$105,108 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$13,553 made by plan members and \$3,827 made by the District.

### **C. Social Security System**

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

## **NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio and SERS based on authority granted by state statute. Both STRS Ohio and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio 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 Stabilization Fund. For the District, this amount equaled \$52,899 during fiscal 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$254,780 million and STRS had 115,395 eligible benefit recipients.

#### **NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)**

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

For fiscal year 2006, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2006 were \$178,221 million and the target level was 150% of projected claims less premium contributions for the next fiscal year. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$70,797 during the 2006 fiscal year.

#### **NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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

	<u>General Fund</u>
Budget basis	\$ 688,523
Net adjustment for revenue accruals	(109,275)
Net adjustment for expenditure accruals	(142,973)
Net adjustment for other financing sources/uses	19,874
Adjustment for encumbrances	48,809
GAAP basis	\$ 504,958

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is involved in litigation that is currently in appeals. The outcome is indeterminable at this time.

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>	<u>BWC Refunds</u>	<u>Budget Stabilization</u>
Set-aside balance at June 30, 2005	\$ (53,826)	\$ (1,081,023)	\$ 43,205	\$ 363,636
Current year set-aside requirement	209,827	209,827	-	-
Current year offsets	-	(242,120)	-	-
Qualifying expenditures	(77,447)	(482,115)	-	(213,250)
Set-aside balance at June 30, 2006	\$ 78,554	\$ (1,595,431)	\$ 43,205	\$ 150,386
Balance carried forward to FY2007	\$ 78,554	\$ (871,196)	\$ 43,205	\$ 150,386

**NOTE 16 - STATUTORY RESERVES – (Continued)**

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook/instructional materials reserve and capital acquisition reserve. Further, via Board Resolution, the District elected to maintain its budget stabilization amount at June 30, 2006.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, and a portion of this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

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

Amount restricted for instructional materials	\$ 78,554
Amount restricted for BWC refunds	<u>43,205</u>
Total restricted assets	<u>\$ 121,759</u>



**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$55,490		\$55,490
National School Lunch Program	050534-LLP4-2005	10.555	25,014		25,014	
	050534-LLP4-2006	10.555	90,774		90,774	
Total National School Lunch Program			115,788	0	115,788	0
<b>Total U.S. Department of Agriculture - Nutrition Cluster</b>			<b>115,788</b>	<b>55,490</b>	<b>115,788</b>	<b>55,490</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	050534-C1S1-2005	84.010	10,157		10,284	
	050534-C1S1-2006	84.010	133,510		133,510	
Total Title I Grants to Local Educational Agencies			143,667		143,794	
Special Education Grants to States	050534-6BSF-2005	84.027	61,484		59,105	
	050534-6BSF-2006	84.027	205,884		168,460	
Total Special Education Grants to States			267,368		227,565	
Drug Free School Grant	050534-DRS1-2005	84.186	4,481		611	
Education Technology State Grants	050534-TJS1-2004	84.318	0		2,664	
	050534-TJS1-2005	84.318	0		310	
	050534-TJS1-2006	84.318	1,541		1,541	
Total Education Technology State Grants			1,541		4,515	
Improving Teacher Quality State Grants	050534-TRS1-2005	84.367	7,931		33,956	
	050534-TRS1-2006	84.367	33,973		5,270	
Total Improving Teacher Quality State Grants			41,904		39,226	
<b>Total Department of Education</b>			<b>458,961</b>		<b>415,711</b>	
<b>Total Federal Receipts and Expenditures</b>			<b>\$574,749</b>	<b>\$55,490</b>	<b>\$531,499</b>	<b>\$55,490</b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2006**

**Note A – Significant Accounting Policies**

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

**Note B – Food Donation**

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

**Note C – National School Lunch Program**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants and local receipts. It is assumed federal monies are expended first.

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**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

February 1, 2008

Chippewa Local School District  
Wayne County  
57 N. Portage St  
Doylestown, Ohio 44230

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate fund information of the **Chippewa Local School District, Wayne County, Ohio** (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 and have issued our report dated February 1, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control Over Financial Reporting (continued)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated February 1, 2008.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standard*, and is reported on the accompanying Schedule of Findings as item Number: 2006-001.

Chippewa Local School District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

**Perry and Associates**  
Certified Public Accountants, A.C.

***Perry & Associates***  
Certified Public Accountants, A.C.

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

February 1, 2008

Chippewa Local School District  
Wayne County  
57 N. Portage St  
Doylestown, Ohio 44230

To the Board of Education:

**Compliance**

We have audited the compliance of **Chippewa Local School District, Wayne County, Ohio** (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

However, the results of our procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with *OMB Circular A-133* and is described in the accompanying schedule of findings as 2006-002.

### **Internal Control Over Compliance**

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the District's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-consequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The District's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

**Perry and Associates**  
Certified Public Accountants, A.C.

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Grant to States: CFDA #84.027; Title I Grants to Local Educational Agencies: CFDA #84.010
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Noncompliance Citation**

**Ohio Revised Code § 5705.39** in part requires that the total appropriation from each fund should not exceed estimated resources.

It was noted during the audit that the total appropriations exceeded the total estimated resources in the following funds:

<u>Funds</u>	<u>Deficit</u>
General	\$ 48,620
Public School Support	4,802
District Managed Activity	7,205
Auxillary Services	67,357
Management Information Systems	25,300
Public School Preschool	94,813
Ohio Reads	14,532
Miscellaneous State	1,994
Title VI-B	168,013
Title I	87,997
Reducing Class Size	65,495
Permanent Improvement	347,616
SchoolNet Equipment	13,143
Food Services	34,966
Special Services Rotary	48,418
Internal Services Rotary	3,951
Student Managed Activities	20,754

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or process of collection and cause fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year-end. If it is determined that estimated resources will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the District should monitor its budgetary process on a regular basis.

**Management's Response** – The Treasurer will attempt to monitor the budget on a continual basis and modify the budget accordingly.



**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**FINDING NUMBER 2006-002**

**Noncompliance Citation**

31 U.S.C 7502(a)(1)(A) requires non-federal entities that expend \$500,000 or more in a year in Federal Awards shall have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearinghouse within nine months after year end.

The District did not file their annual audit with the Federal Audit Clearinghouse within the nine month period after year end.

We recommend that the district file their annual audit with the Federal Audit Clearinghouse.

**Management's Response** – We did not receive a response from officials to this finding.

**CHIPPEWA LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2005-CLSD-001	ORC Section 5705.39 – Total appropriations from each fund should not exceed estimated resources.	No	Not Corrected, Repeated as finding 2006-001.
2005-CLSD-002	31 U.S.C. 7502(a)(1)(A) – Non-federal entities that expend \$500,000 or more in a year in Federal Awards shall have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearing House within nine months after year end.	No	Not Corrected, Repeated as finding 2006-002.



**Mary Taylor, CPA**  
Auditor of State

**CHIPPEWA LOCAL SCHOOL DISTRICT**

**WAYNE 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  
APRIL 15, 2008**