

Conotton Valley Union Local School District

Harrison County, Ohio

Regular Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Board of Education
Conotton Valley Union Local School District
PO Box 187
Sherrodsville, Ohio 44675

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 7, 2008

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Conotton Valley Union Local School District
Harrison County, Ohio

Table of Contents

Independent Auditor’s 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 (Budgetary Basis) – General Fund.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	21
Notes to the Basic Financial Statements	22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46

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Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Conotton Valley Union Local School District
21 Mound Street
Sherrodsville, OH 44675

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Conotton Valley Union Local School District (the District), Harrison County, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

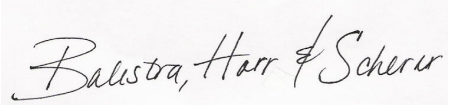
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2006, and the respective changes in financial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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2008 on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Conotton Valley Union Local School District
Independent Auditor's Report
Page 2

As described in Note 3, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46 and GASB Statement No. 47, *Accounting for Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 15, 2008

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

The discussion and analysis of the Conotton Valley Union 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 decreased \$34,520 which represents a 1.67% decrease from 2005.
- General revenues accounted for \$4,729,453 in revenue or 84.62% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$859,335 or 15.38% of total revenues of \$5,588,788.
- The District had \$5,623,308 in expenses related to governmental activities; \$859,335 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 \$4,729,453 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$4,947,552 in revenues and other financing sources and \$4,981,733 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$34,181 from \$1,388,395 to \$1,354,214.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 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.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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 only major governmental fund is the general 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.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in 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 20 and 21. 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 22-45 of this report.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 3,872,715	\$ 3,993,962
Capital assets	<u>716,626</u>	<u>659,006</u>
Total assets	<u>4,589,341</u>	<u>4,652,968</u>
<u>Liabilities</u>		
Current liabilities	2,297,390	2,392,386
Long-term liabilities	<u>265,230</u>	<u>199,341</u>
Total liabilities	<u>2,562,620</u>	<u>2,591,727</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	716,626	659,006
Restricted	297,974	290,931
Unrestricted	<u>1,012,121</u>	<u>1,111,304</u>
Total net assets	<u>\$ 2,026,721</u>	<u>\$ 2,061,241</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 \$2,026,721. Of this total, \$1,012,121 is unrestricted in use.

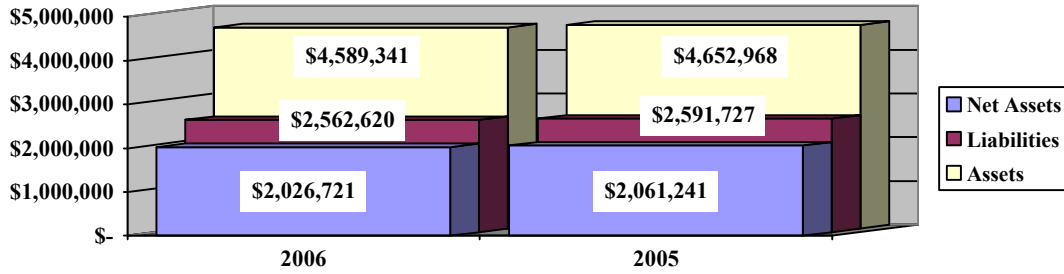
At year-end, capital assets represented 15.61% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$716,626. These capital assets 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, \$297,974, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,012,121 may be used to meet the District's ongoing obligations to the students and creditors.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Governmental Activities



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

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 379,783	\$ 364,797
Operating grants and contributions	479,552	440,182
General revenues:		
Property taxes	2,095,441	1,936,310
Grants and entitlements	2,545,301	2,459,568
Investment earnings	82,709	34,557
Other	6,002	7,562
Total revenues	<u>5,588,788</u>	<u>5,242,976</u>

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,508,508	\$ 2,335,903
Special	522,993	516,863
Vocational	51,059	46,722
Other	21,764	248,607
Support services:		
Pupil	188,742	119,583
Instructional staff	228,255	90,067
Board of education	14,892	12,297
Administration	551,436	536,705
Fiscal	254,602	172,919
Business	316	26
Operations and maintenance	517,947	384,686
Pupil transportation	367,493	353,249
Central	18,105	9,000
Food service operations	249,655	243,555
Operations of non-instructional services	2,205	-
Extracurricular activities	123,923	127,844
Interest and fiscal charges	<u>1,413</u>	<u>-</u>
Total expenses	<u>5,623,308</u>	<u>5,198,026</u>
Change in net assets	(34,520)	44,950
Net assets at beginning of year	<u>2,061,241</u>	<u>2,016,291</u>
Net assets at end of year	<u>\$ 2,026,721</u>	<u>\$ 2,061,241</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$34,520. Total governmental expenses of \$5,623,308 were offset by program revenues of \$859,335 and general revenues of \$4,729,453. Program revenues supported 15.28% of the total governmental expenses.

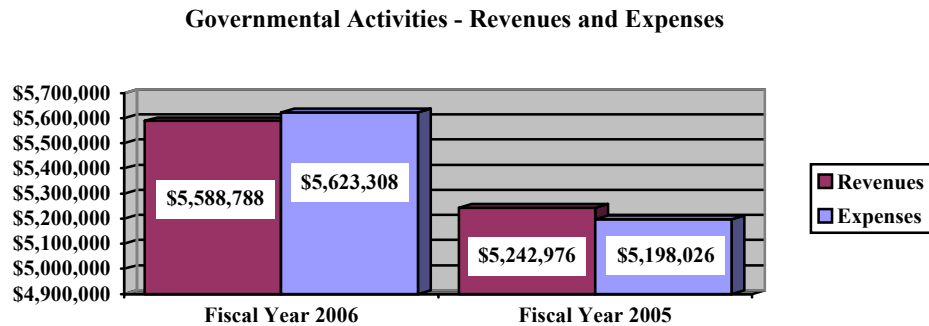
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.04% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,104,324 or 55.20% of total governmental expenses for fiscal 2006.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON 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.



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

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 2,508,508	\$ 2,204,346	\$ 2,335,903	\$ 2,039,850
Special	522,993	296,144	516,863	283,130
Vocational	51,059	51,059	46,722	46,722
Other	21,764	13,527	248,607	248,607
Support services:				
Pupil	188,742	188,699	119,583	118,932
Instructional staff	228,255	202,462	90,067	89,332
Board of education	14,892	14,892	12,297	12,297
Administration	551,436	530,332	536,705	517,238
Fiscal	254,602	240,627	172,919	167,919
Business	316	316	26	26
Operations and maintenance	517,947	517,947	384,686	384,686
Pupil transportation	367,493	367,493	353,249	353,249
Central	18,105	9,105	9,000	-
Operations of non-instructional services	2,205	2,205	-	-
Food service operations	249,655	47,731	243,555	44,587
Extracurricular activities	123,923	75,675	127,844	86,472
Interest and fiscal charges	1,413	1,413	-	-
Total expenses	<u>\$ 5,623,308</u>	<u>\$ 4,763,973</u>	<u>\$ 5,198,026</u>	<u>\$ 4,393,047</u>

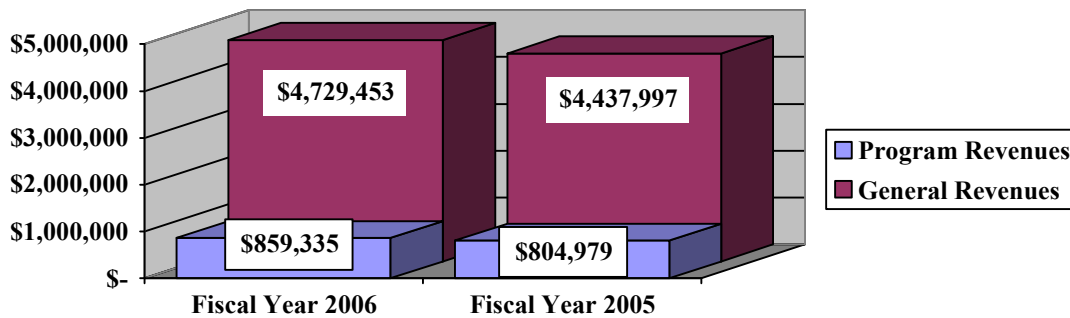
**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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, 82.63% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.72%. 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 reported a combined fund balance of \$1,492,025, which is higher than last year's total of \$1,467,399. 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 <u>June 30, 2005</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 1,354,214	\$ 1,388,395	\$ (34,181)	(2.46) %
Other Governmental	<u>137,811</u>	<u>79,004</u>	<u>58,807</u>	74.44 %
Total	<u>\$ 1,492,025</u>	<u>\$ 1,467,399</u>	<u>\$ 24,626</u>	1.68 %

General Fund

The District's general fund balance decreased \$34,181. The decrease in fund balance can be attributed to revenues increasing at a slower pace than increasing expenditures. Revenues exceed expenditures for fiscal year 2006 by \$36,357. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON 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>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,031,370	\$ 1,873,455	\$ 157,915	8.43 %
Earnings on investments	82,709	34,557	48,152	139.34 %
Intergovernmental	2,535,778	2,454,524	81,254	3.31 %
Other revenues	<u>226,123</u>	<u>218,764</u>	<u>7,359</u>	3.36 %
 Total	 <u>\$ 4,875,980</u>	 <u>\$ 4,581,300</u>	 <u>\$ 294,680</u>	 6.43 %
<u>Expenditures</u>				
Instruction	\$ 2,743,886	\$ 2,796,958	\$ (53,072)	(1.90) %
Support services	1,937,776	1,608,713	329,063	20.46 %
Non-instructional services	2,169	-	2,169	100.00 %
Extracurricular activities	80,035	75,747	4,288	5.66 %
Capital outlay	71,572	-	71,572	100.00 %
Debt service	<u>4,185</u>	<u>-</u>	<u>4,185</u>	100.00 %
 Total	 <u>\$ 4,839,623</u>	 <u>\$ 4,481,418</u>	 <u>\$ 358,205</u>	 7.99 %

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,966,800, which stayed the same for final budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal 2006 was \$4,902,499. This represents a \$64,301 decrease over original budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$4,964,154 stayed the same in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$4,893,490, which was \$70,664 less than the original budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$716,626 invested in land, and improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

	Governmental Activities	
	2006	2005
Land	\$ 75,820	\$ 75,820
Land improvements	69,844	70,681
Building and improvements	243,365	227,582
Furniture and equipment	135,701	66,942
Vehicles	191,896	217,981
 Total	 \$ 716,626	 \$ 659,006

The overall increase in capital assets of \$57,620 is due to capital outlays of \$107,197 exceeding depreciation expense of \$49,577.

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 a capital lease obligation in the amount of \$68,800. Of this amount \$11,657 was due within one year and \$57,143 was due within more than one year.

At June 30, 2006, the District's overall legal debt margin was \$5,887,081, and an unvoted debt margin of \$65,412.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Overall, the District is fiscally sound. The District relies heavily upon grants, property taxes and the state foundation program. Our property tax revenue collection is expected to be stagnant in fiscal year 2007 due to the poor economy and flat historical collections. This tax revenue, along with the District's cash balance, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2007. However, the future financial stability of the District is not without challenges.

The first challenge is the unknown nature of state foundation revenues due to the increase in local assessed valuation. The District has a sufficient cash balance to meet current operating expenses. The District has lowered planned purchased services and capital outlay expenditures.

The next challenge facing the District is to attract families to the District. We have a negative balance of (\$194,655) as it relates to open enrollment. We have more kids leaving via open enrollment than coming to our district. We need to analyze why we have this issue and take steps to alleviate it in the future.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." On May 16, 2003, the Ohio Supreme Court emphatically clarified that jurisdiction of the DeRolph case had ended.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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 Ms. Debra Henry, Treasurer, Conotton Valley Union Local School District, 21 Mound Street, P.O. Box 187, Sherrodsville, Ohio 44675.

BASIC
FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,935,883
Receivables:	
Taxes	1,877,216
Intergovernmental	34,965
Prepayments	21,793
Materials and supplies inventory	2,858
Capital assets:	
Land	75,820
Depreciable capital assets, net	640,806
Capital assets, net.	716,626
Total assets.	4,589,341
Liabilities:	
Accounts payable.	222
Accrued wages and benefits	475,235
Pension obligation payable.	92,998
Intergovernmental payable	29,335
Deferred revenue	1,699,600
Long-term liabilities:	
Due within one year.	30,002
Due within more than one year	235,228
Total liabilities	2,562,620
Net Assets:	
Invested in capital assets, net of related debt.	716,626
Restricted for:	
Capital projects	119,624
State funded programs.	5,029
Federally funded programs	5,340
Student activities	7,754
Other purposes	160,227
Unrestricted.	1,012,121
Total net assets	\$ 2,026,721

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON 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	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 2,508,508	\$ 229,815	\$ 74,347	\$ (2,204,346)
Special	522,993	-	226,849	(296,144)
Vocational	51,059	-	-	(51,059)
Other	21,764	-	8,237	(13,527)
Support services:				
Pupil	188,742	-	43	(188,699)
Instructional staff	228,255	-	25,793	(202,462)
Board of education	14,892	-	-	(14,892)
Administration	551,436	6,715	14,389	(530,332)
Fiscal	254,602	-	13,975	(240,627)
Business	316	-	-	(316)
Operations and maintenance	517,947	-	-	(517,947)
Pupil transportation	367,493	-	-	(367,493)
Central	18,105	-	9,000	(9,105)
Operation of non-instructional services:				
Food service operations	249,655	95,005	106,919	(47,731)
Other non-instructional services	2,205	-	-	(2,205)
Extracurricular activities	123,923	48,248	-	(75,675)
Interest and fiscal charges	1,413	-	-	(1,413)
Total governmental activities	\$ 5,623,308	\$ 379,783	\$ 479,552	(4,763,973)
 General Revenues:				
Property taxes levied for:				
General purposes				2,035,284
Capital projects				60,157
Grants and entitlements not restricted to specific programs				2,545,301
Investment earnings				82,709
Miscellaneous				6,002
Total general revenues				4,729,453
Change in net assets				(34,520)
Net assets at beginning of year				2,061,241
Net assets at end of year				\$ 2,026,721

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,619,271	\$ 156,385	\$ 1,775,656
Receivables:			
Taxes	1,823,926	53,290	1,877,216
Intergovernmental	4,500	30,465	34,965
Interfund loans	7,241	-	7,241
Prepayments	21,793	-	21,793
Materials and supplies inventory	-	2,858	2,858
Restricted assets:			
Equity in pooled cash and cash equivalents	160,227	-	160,227
Total assets	\$ 3,636,958	\$ 242,998	\$ 3,879,956
Liabilities:			
Accounts payable	\$ 57	\$ 165	\$ 222
Accrued wages and benefits	434,706	40,529	475,235
Compensated absences payable	4,117	-	4,117
Pension obligation payable	91,108	1,890	92,998
Intergovernmental payable	26,133	3,202	29,335
Interfund loans	-	7,241	7,241
Deferred revenue	1,726,623	52,160	1,778,783
Total liabilities	2,282,744	105,187	2,387,931
Fund Balances:			
Reserved for encumbrances	66,602	10,289	76,891
Reserved for materials and supplies inventory	-	2,858	2,858
Reserved for prepayments	21,793	-	21,793
Reserved for property tax unavailable for appropriation	97,303	2,730	100,033
Reserved for BWC refunds	17,028	-	17,028
Reserved for school bus purchase	7,919	-	7,919
Reserved for textbooks	135,280	-	135,280
Unreserved, undesignated (deficit), reported in:			
General fund	1,008,289	-	1,008,289
Special revenue funds	-	14,765	14,765
Capital projects funds	-	107,169	107,169
Total fund balances	1,354,214	137,811	1,492,025
Total liabilities and fund balances	\$ 3,636,958	\$ 242,998	\$ 3,879,956

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

Total governmental fund balances		\$ 1,492,025
<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.		716,626
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 76,216	
Intergovernmental revenue	<u>2,967</u>	
Total		79,183
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(192,313)	
Capital lease obligation	<u>(68,800)</u>	
Total		<u>(261,113)</u>
Net assets of governmental activities		<u>\$ 2,026,721</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON 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>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,031,370	\$ 60,065	\$ 2,091,435
Tuition	220,121	-	220,121
Charges for services	-	95,005	95,005
Earnings on investments	82,709	-	82,709
Extracurricular	-	64,460	64,460
Other local revenues	6,002	197	6,199
Intergovernmental - State	2,535,778	60,584	2,596,362
Intergovernmental - Federal	-	476,046	476,046
Total revenue	<u>4,875,980</u>	<u>756,357</u>	<u>5,632,337</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,416,579	112,518	2,529,097
Special	258,964	264,029	522,993
Vocational	50,820	-	50,820
Other	17,523	4,241	21,764
Support services:			
Pupil	190,560	44	190,604
Instructional staff	196,664	31,136	227,800
Board of education	14,136	-	14,136
Administration	518,832	24,696	543,528
Fiscal	239,307	17,050	256,357
Business	316	-	316
Operations and maintenance	432,330	84,993	517,323
Pupil transportation	337,476	-	337,476
Central	8,155	9,950	18,105
Operation of non-instructional services:			
Food service operations	-	247,119	247,119
Other non-instructional services	2,169	36	2,205
Extracurricular activities	80,035	43,848	123,883
Capital outlay	71,572	-	71,572
Debt service:			
Principal retirement	2,772	-	2,772
Interest and fiscal charges	1,413	-	1,413
Total expenditures	<u>4,839,623</u>	<u>839,660</u>	<u>5,679,283</u>
Excess of revenues over (under) expenditures	<u>36,357</u>	<u>(83,303)</u>	<u>(46,946)</u>
Other financing sources (uses):			
Capital lease transaction	71,572	-	71,572
Transfers in	-	142,110	142,110
Transfers (out)	<u>(142,110)</u>	<u>-</u>	<u>(142,110)</u>
Total other financing sources (uses)	<u>(70,538)</u>	<u>142,110</u>	<u>71,572</u>
Net change in fund balances	(34,181)	58,807	24,626
Fund balances at beginning of year	<u>1,388,395</u>	<u>79,004</u>	<u>1,467,399</u>
Fund balances at end of year	<u>\$ 1,354,214</u>	<u>\$ 137,811</u>	<u>\$ 1,492,025</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON 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 \$ 24,626

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	\$	107,197	
Current year depreciation		<u>(49,577)</u>	
Total			57,620

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

Taxes		4,006	
Intergovernmental revenue		<u>(47,555)</u>	
Total			(43,549)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

2,772

Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.

(71,572)

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.

(4,417)

Change in net assets of governmental activities \$ (34,520)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,900,000	\$ 1,900,000	\$ 1,988,732	\$ 88,732
Tuition	218,000	218,000	220,121	2,121
Earnings on investments	40,000	40,000	82,709	42,709
Other local revenues	3,000	3,000	5,760	2,760
Intergovernmental - State	2,698,000	2,698,000	2,535,778	(162,222)
Total revenue	<u>4,859,000</u>	<u>4,859,000</u>	<u>4,833,100</u>	<u>(25,900)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,429,886	2,429,886	2,427,051	2,835
Special	248,498	248,498	245,128	3,370
Vocational	49,697	49,697	48,451	1,246
Other	17,710	17,710	17,523	187
Support services:				
Pupil	195,515	195,515	189,726	5,789
Instructional staff	207,400	207,400	195,472	11,928
Board of education	14,981	14,981	14,136	845
Administration	519,074	519,074	507,422	11,652
Fiscal	202,335	202,335	200,476	1,859
Business	316	316	316	-
Operations and maintenance	440,516	440,516	421,960	18,556
Pupil transportation	402,725	402,725	390,627	12,098
Central	12,367	12,367	12,340	27
Extracurricular activities	80,878	80,878	80,606	272
Total expenditures	<u>4,821,898</u>	<u>4,821,898</u>	<u>4,751,234</u>	<u>70,664</u>
Excess of revenues over (under) expenditures	<u>37,102</u>	<u>37,102</u>	<u>81,866</u>	<u>44,764</u>
Other financing sources (uses):				
Refund of prior year expenditure	5,000	5,000	242	(4,758)
Transfers in	800	800	-	(800)
Transfers (out)	(142,110)	(142,110)	(142,110)	-
Advances in	102,000	102,000	69,157	(32,843)
Advances (out)	(146)	(146)	(146)	-
Total other financing sources (uses)	<u>(34,456)</u>	<u>(34,456)</u>	<u>(72,857)</u>	<u>(38,401)</u>
Net change in fund balance	2,646	2,646	9,009	6,363
Fund balance at beginning of year	1,631,639	1,631,639	1,631,639	-
Prior year encumbrances appropriated	72,191	72,191	72,191	-
Fund balance at end of year	<u>\$ 1,706,476</u>	<u>\$ 1,706,476</u>	<u>\$ 1,712,839</u>	<u>\$ 6,363</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 211,335	\$ 26,614
Total assets	<u>211,335</u>	<u>\$ 26,614</u>
Liabilities:		
Due to students	<u>-</u>	<u>\$ 26,614</u>
Total liabilities	<u>-</u>	<u>\$ 26,614</u>
Net Assets:		
Held in trust for scholarships	<u>211,335</u>	
Total net assets	<u>\$ 211,335</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 8,388
Gifts and contributions	241
Total additions	8,629
Deductions:	
Scholarships awarded	4,081
Change in net assets	4,548
Net assets at beginning of year.	206,787
Net assets at end of year	\$ 211,335

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Conotton Valley Union Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is the 589th largest in the State of Ohio (among 615 public school districts) in terms of total enrollment. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the District's 3 instructional/support facilities staffed by 31 classified and 47 certificated full-time teaching personnel, who provide services to 552 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 provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; (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:

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan'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 Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

Tuscarawas-Harrison County School Benefit Trust Health Consortium

The Tuscarawas-Harrison County School Benefit Trust Health Consortium (the "Trust") is a public entity shared risk pool consisting of the District and two County Educational Service Centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 510(c)(9) of the Internal Revenue Code and provides sick, and in some cases, dental, vision, and prescription drug benefits to the employees of the participating entities. Each participating entity's Superintendent is appointed to an Administrative Committee which advises the Third-Party Administrator, CoreSource Insurance, concerning aspects of the administration of the Trust.

Each entity decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from CoreSource, Inc., 229 Huber Village Blvd., Westerville, Ohio 43081.

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. The District does not have proprietary funds.

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 is the District's major governmental fund:

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.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

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 funds are private-purpose trusts which account 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 fund accounts for student activities.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

The private-purpose trust funds are 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. 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.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

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

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

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

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 Harrison County Budget Commission for tax rate determination.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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 issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is 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 fund level of expenditures, the District has elected to present budgetary 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 fund appropriation 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. All funds completed the year within the amount of their legally authorized cash basis appropriation.
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, 2005. 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 plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

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

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 and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$82,709, which includes \$14,762 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 governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,500. 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.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

All 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.

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 or greater with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

N. 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.

O. Estimates

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve, a school bus purchase reserve and BWC refunds reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 15.

Q. Interfund Activity

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

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

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

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

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

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	
Food service	\$ 1,606
Uniform School Supplies	146
Special Enterprises	154
Management Information Systems	81
Title I	2,366
Title VI	21
Class Reduction	2,131
Miscellaneous Federal Grants	10

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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 Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
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 \$201,987, exclusive of the \$1,672,721 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$111,238 of the District's bank balance of \$211,238 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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. Investments

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

<u>Investment type</u>	<u>Balance at</u>	<u>Investment</u> <u>Maturities</u>
	<u>Fair Value</u>	<u>6 months or</u> <u>less</u>
Repurchase Agreement	\$1,672,721	\$ 1,672,721
STAR Ohio	<u>298,252</u>	<u>298,252</u>
	<u>\$1,970,973</u>	<u>\$ 1,970,973</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: The District's investments consisted of a repurchase agreement as discussed above and STAR Ohio. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

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>% to Total</u>
Repurchase Agreement	\$ 1,672,721	84.87
STAR Ohio	<u>298,252</u>	<u>15.13</u>
	<u>\$ 1,970,973</u>	<u>100.00</u>

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. 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	\$ 201,987
Investments	<u>1,970,973</u>
Total	<u>\$ 2,172,960</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,935,883
Private-purpose trust funds	211,335
Agency funds	<u>25,742</u>
Total	<u>\$ 2,172,960</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 7,241

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$142,110

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.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Harrison and Carroll Counties. 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.

The amount available as an advance at June 30, 2006 was \$97,303 in the general fund and \$2,730 in the Permanent Improvement capital projects fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$54,665 in the general fund and \$1,624 in the Permanent Improvement capital projects 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.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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 Other Real Estate	\$ 51,000,340	83.00	\$ 54,924,320	83.97
Public Utility Personal	6,649,830	10.82	6,910,870	10.57
Tangible Personal Property	<u>3,794,919</u>	<u>6.18</u>	<u>3,576,820</u>	<u>5.46</u>
Total	<u>\$ 61,445,089</u>	<u>100.00</u>	<u>\$ 65,412,010</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 53.28		\$ 41.95	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 1,877,216
Intergovernmental	<u>34,965</u>
Total	<u>\$ 1,912,181</u>

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
<i>Governmental Activities</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 75,820	\$ -	\$ -	\$ 75,820
Total capital assets, not being depreciated	<u>75,820</u>	<u>-</u>	<u>-</u>	<u>75,820</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	137,823	-	-	137,823
Buildings and improvements	1,048,114	21,995	-	1,070,109
Furniture and equipment	542,366	85,202	(64,426)	563,142
Vehicles	<u>391,268</u>	<u>-</u>	<u>-</u>	<u>391,268</u>
Total capital assets, being depreciated	<u>2,119,571</u>	<u>107,197</u>	<u>(64,426)</u>	<u>2,162,342</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(67,142)	(837)	-	(67,979)
Buildings and improvements	(820,532)	(6,212)	-	(826,744)
Furniture and equipment	(475,424)	(16,443)	64,426	(427,441)
Vehicles	<u>(173,287)</u>	<u>(26,085)</u>	<u>-</u>	<u>(199,372)</u>
Total accumulated depreciation	<u>(1,536,385)</u>	<u>(49,577)</u>	<u>64,426</u>	<u>(1,521,536)</u>
Governmental activities capital assets, net	<u>\$ 659,006</u>	<u>\$ 57,620</u>	<u>\$ -</u>	<u>\$ 716,626</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 10,874
<u>Support Services:</u>	
Pupil	116
Instructional staff	193
Board of Education	756
Administration	3,846
Fiscal	358
Operations and maintenance	1,402
Pupil transportation	29,827
Extracurricular activities	40
Food service operations	<u>2,165</u>
Total depreciation expense	<u>\$ 49,577</u>

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$71,572. Accumulated depreciation is \$7,157 resulting in a carrying value of \$64,415. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$2,772 paid by the general fund.

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

<u>Fiscal Year Ending June 30.</u>	
2007	\$ 16,740
2008	16,740
2009	16,740
2010	16,740
2011	<u>16,740</u>
Total minimum lease payments	83,700
Less amount representing interest	<u>(14,900)</u>
Total	<u>\$ 68,800</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

	<u>Outstanding</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u>	<u>Due in</u>
	<u>06/30/05</u>			<u>06/30/06</u>	<u>One Year</u>
Governmental Activities:					
Capital lease	\$ -	\$ 71,572	\$ (2,772)	\$ 68,800	\$ 11,657
Compensated absences	<u>199,341</u>	<u>21,905</u>	<u>(24,816)</u>	<u>196,430</u>	<u>18,435</u>
Total long-term obligations, governmental activities	<u>\$ 199,341</u>	<u>\$ 93,477</u>	<u>\$ (27,588)</u>	<u>\$ 265,230</u>	<u>\$ 30,092</u>

B. Legal Debt Margin

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$5,887,081 and an unvoted debt margin of \$65,412.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	Nationwide/Wausau		
Each occurrence		\$ 1,000,000	\$1,000
Aggregate		3,000,000	1,000
Building and contents	Indiana Insurance Co.	13,657,245	1,000
Fleet:	Indiana Insurance Co.		
Liability		2,000,000	0
Collision		Actual Cash Basis Value	500
Uninsured motorist		1,000,000	500
Auto Medical parts		5,000	0
Physical Damage:			
Comprehensive		Actual Cash Basis Value	100

B. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Group Health Insurance

The District has elected to provide health care benefits to employees and administrators through the Tuscarawas-Harrison County School Benefit Trust Health Consortium. The employees share the cost of the monthly premium with the Board.

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$50,941, \$52,969, and \$43,435, respectively. 38.17 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$31,495 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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.

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

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$244,799, \$226,051 and \$242,143, respectively. 83.46 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$40,497 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 year 2006 were \$70 made by plan members.

C. Social Security System

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$18,831 for fiscal year 2006.

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

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$26,825 to fund health care benefits, including the surcharge.

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

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).

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

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:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 9,009
Net adjustment for revenue accruals	42,880
Net adjustment for expenditure accruals	(155,048)
Net adjustment for other sources/uses	2,319
Adjustment for encumbrances	<u>66,659</u>
GAAP basis	<u>\$ (34,181)</u>

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 no material litigation as either plaintiff or defendant.

NOTE 16 - STATUTORY RESERVES

The District is required by state statute to annually set-aside, in the general fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the District was also required to set aside money for BWC refunds. For fiscal year 2006, only the BWC refunds, school bus reserve and textbooks continue to be set aside at fiscal year end. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

**CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT
HARRISON COUNTY, OHIO**

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

NOTE 16 - STATUTORY RESERVES - (Continued)

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2005	\$ 137,543	\$ -	\$ 17,028
Current year set-aside requirement	81,722	81,722	-
Current year offsets	-	(58,959)	-
Qualifying disbursements	<u>(83,985)</u>	<u>(100,119)</u>	<u>-</u>
Total	<u>\$ 135,280</u>	<u>\$ (77,356)</u>	<u>\$ 17,028</u>
Cash balance carried forward to FY 2007	<u>\$ 135,280</u>	<u>\$ -</u>	<u>\$ 17,028</u>
A schedule of the restricted assets at June 30, 2006 follows:			
Amount restricted for textbooks	\$ 135,280		
Amounts restricted for budget reserve	17,028		
Amounts restricted for school bus reserve	<u>7,919</u>		
Total restricted assets	<u>\$ 160,227</u>		

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

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Ohio Society of Certified Public Accountants

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

Members of the Board
Conotton Valley Union Local School District
21 Mound Street
Sherrodsville, Ohio 44675

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Conotton Valley Union Local School District, Harrison 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 thereon dated February 15, 2008 in which we indicated the School District implemented GASB Statements No. 42, 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

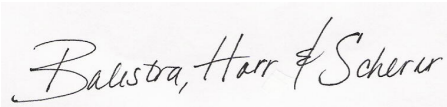
Compliance and Other Matters

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

We noted certain other matters which have been reported to management of the District in a separate letter dated February 15, 2008.

Members of the Board
Conotton Valley Union Local School District
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
Page 2

This report is intended solely for the information and use of the audit committee, management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.

February 15, 2008



Mary Taylor, CPA
Auditor of State

CONOTTON VALLEY UNION LOCAL SCHOOL DISTRICT

HARRISON 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 17, 2008**