



**Auditor of State
Betty Montgomery**

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Manchester Local School District
Adams County
130 Wayne Frye Drive
Manchester, Ohio 45144

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Local School District, Adams County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Local School District, Adams County, Ohio, as of June 30, 2005, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 18, 2006

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As management of the Manchester Local School District, we offer readers of the Manchester Local School District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2005. We encourage readers to consider the information presented here to enhance their understanding of the School District's financial performance.

The Manchester Local School District was organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The District was created by the South Central Ohio Educational Service Center on January 13, 2004. Formerly, the Manchester Local School District territory was a part of Adams County/Ohio Valley School District. The State Department of Education granted the District a school district charter on April 13, 2004 and the district started formal operations on July 1, 2004.

Financial Highlights

The liabilities of the School District exceeded its assets at June 30, 2005 by \$23,206 due to the unusual circumstances of the division of debt. Ohio Revised Code 3311.26 requires that outstanding debt is to be divided by the valuation of each district when there is a territory change. The District assumed 45.78 percent of the property valuation requiring it to assume 45.78 percent of the outstanding debt even though it only received approximately 25 percent of the capital assets.

General revenues accounted for \$13,654,613 or 89.4 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants, contributions, and interest, and capital grants, contributions and interest accounted for \$1,623,944 or 10.6 percent of total revenues of \$15,278,557.

The School District had \$10,871,849 in expenses; 15 percent of these expenses were offset by program specific charges for services and sales and operating grants, contributions and interest, and capital grants, contributions and interest.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, or an entire operating entity.

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. 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 School District's major funds with all other non-major funds presented in total in one column.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Reporting the Manchester Local School District as a Whole

The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that demonstrates how the School District did financially during 2005. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

All of the School District's programs and services provided are reported as governmental activities. These activities include instruction, support services and non-instructional services.

Reporting the Manchester Local School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds which are the General Fund, the Debt Service Fund, and the Construction Fund.

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

Fiduciary Funds - The School District's fiduciary funds are a private purpose trust fund and an agency fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2005:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$11,696,795	\$1,585,769
Capital Assets, Net	12,090,564	11,989,184
Total Assets	<u>23,787,359</u>	<u>13,574,953</u>
Liabilities		
Long-Term Liabilities	17,433,388	17,921,730
Other Liabilities	6,377,177	83,137
Total Liabilities	<u>23,810,565</u>	<u>18,004,867</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	(4,760,246)	(5,396,161)
Restricted	1,837,397	1,352,254
Unrestricted	2,899,643	(386,007)
Total Net Assets	<u><u>(\$23,206)</u></u>	<u><u>(\$4,429,914)</u></u>

The beginning 2004 net assets represent the District's share from Adams County/Ohio Valley School District as a result of the deconsolidation into two districts. Current and Other Assets represent the District's share of cash. The Capital Assets represent the buildings, contents and buses that were turned over from Adams County/Ohio Valley School District. The liabilities represent the current and long-term liabilities of Adams County/Ohio Valley School District that the District is responsible for payment as the debt becomes due.

Table 1 is governmental activities as of June 30, 2005.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for fiscal year 2005.

(Table 2)
Change in Net Assets

	2005
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$511,898
Operating Grants, Contributions, and Interest	1,092,230
Capital Grants and Contributions	19,816
Total Program Revenues	1,623,944
General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	13,562,196
Gifts and Donations	1,675
Investment Earnings	50,215
Miscellaneous	40,527
Total General Revenues	13,654,613
Total Revenues	15,278,557
 Program Expenses:	
Instruction	
Regular	3,542,993
Special	1,495,434
Vocational	741,065
Support Services	
Pupils	546,469
Instructional Staff	329,071
Board of Education	154,100
Administration	782,250
Fiscal	308,098
Operation and Maintenance of Plant	762,026
Pupil Transportation	467,298
Operation of Non-Instructional Services	488,728
Operation of Non-Instructional Services:	
Food Services	10,050
Extracurricular Activities	197,784
Interest and Fiscal Charges	1,046,483
Total Expenses	10,871,849
Change in Net Assets	4,406,708
Net Assets at Beginning of Year	(4,429,914)
Net Assets at End of Year	(\$23,206)

The statement of activities shows the cost of program services and the charges for services and sales and operating grants, contributions and interest, and capital grants, contributions and interest offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

(Table 3)

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$5,779,492	(\$4,853,763)
Support Services	3,349,312	(3,216,806)
Operation of Non-Instructional Services	498,778	(27,330)
Extracurricular Activities	197,784	(103,523)
Interest and Fiscal Charges	1,046,483	(1,046,483)
Total Expenses	\$10,871,849	(\$9,247,905)

The School District's Funds

Information about the School District's major funds starts on page 13. The School District's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$14,817,602 and expenditures of \$11,514,083.

The General Fund saw an increase in fund balance of \$1,064,638. This was due to the majority of employees being paid ten months of salary and fringe benefits due to the deconsolidation of the districts. The Debt Service fund saw fund balance increase \$274,013 due to revenues exceeding the required principal and interest payments. The Construction fund also saw an increase in fund balance of \$2,056,307 which was due primarily to a transfer in from the General Fund.

General Fund - Budget Highlights

The School District's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The School District's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The ending unobligated cash balance was \$325,617 more than the final budgeted amount for the General Fund. Actual revenues for interest were \$15,022 below final budgeted revenues. Final budgeted expenditures were \$295,777 less than actual expenditures. Original budget revenues were \$145,267 less than final budgeted revenues due to increases in intergovernmental and tuition/fee monies expected to be received during the year. Original budgeted appropriations were \$443,682 more than final budgeted expenditures. These differences represent cyclical changes that occur throughout the year and are not known at the time the original budgets are prepared.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Capital Assets

At the end of fiscal year 2005 the School District had \$12,090,564 invested in capital assets.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$566,358	\$286,305
Land Improvements	501,212	511,100
Buildings and Improvements	9,967,737	10,168,503
Furniture, Fixtures and Equipment	561,895	560,430
Vehicles	493,362	462,846
Totals	\$12,090,564	\$11,989,184

For more information on capital assets, see Note 9 to the basic financial statements.

Debt

At June 30, 2005, the School District had \$16,850,810 in debt outstanding, with \$534,535 due within one year. Table 5 summarizes debt outstanding:

(Table 5)
Outstanding Debt, at Year-End

	2005	2004
General Obligation Bonds:		
1995 4.55%-5.25% School Improvement Bonds	\$16,343,460	\$16,801,260
2002 4.33-5.92% Energy Conservation Bonds	454,094	509,030
1998 4.87% School Improvement Bonds	41,202	54,936
1987 EPA (Asbestos Loan)	12,054	20,119
Totals	\$16,850,810	\$17,385,345

The School District's overall legal debt margin was \$4,483,103 with an unvoted debt margin of \$214,601 at June 30, 2005.

For more information on debt, refer to the note 14 to the basic financial statements.

Manchester Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Karen Ballengee, Treasurer, Manchester Local School District, 130 Wayne Frye Drive, Manchester, Ohio, 45144.

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Manchester Local School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,189,725
Prepaid Items	3,734
Materials and Supplies Inventory	38,752
Intergovernmental Receivable	6,420,335
Interest Receivable	19,226
Accounts Receivable	25,023
Capital Assets:	
Land	566,358
Depreciable Capital Assets, Net	<u>11,524,206</u>
 Total Assets	 <u>23,787,359</u>
Liabilities	
Accounts Payable	39,923
Accrued Wages and Benefits	659,575
Contracts Payable	14,500
Intergovernmental Payable	278,986
Due to Students	3,687
Deferred Revenue	5,299,963
Accrued Interest Payable	80,543
Long-Term Liabilities:	
Due Within One Year	556,503
Due in More Than One Year	<u>16,876,885</u>
 Total Liabilities	 <u>23,810,565</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	(4,760,246)
Restricted for:	
Debt Service	1,562,421
Capital Outlay	127,394
Other Purposes	147,582
Unrestricted	<u>2,899,643</u>
 Total Net Assets	 <u><u>(\$23,206)</u></u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Contributions and Interest		
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$3,542,993	\$127,537	\$81,533	\$19,816	(\$3,314,107)
Special	1,495,434	124,244	572,599	0	(798,591)
Vocational	741,065	0	0	0	(741,065)
Support Services:					
Pupils	546,469	0	47,851	0	(498,618)
Instructional Staff	329,071	0	66,422	0	(262,649)
Board of Education	154,100	0	0	0	(154,100)
Administration	782,250	0	0	0	(782,250)
Fiscal	308,098	0	0	0	(308,098)
Operation and Maintenance of Plant	762,026	0	8,286	0	(753,740)
Pupil Transportation	467,298	0	9,947	0	(457,351)
Operation of Non-Instructional Services	488,728	165,856	305,592		(17,280)
Operation of Non-Instructional Services:					
Food Services	10,050	0	0	0	(10,050)
Extracurricular Activities	197,784	94,261	0	0	(103,523)
Interest and Fiscal Charges	1,046,483	0	0	0	(1,046,483)
Total Governmental Activities	<u>\$10,871,849</u>	<u>\$511,898</u>	<u>\$1,092,230</u>	<u>\$19,816</u>	<u>(9,247,905)</u>
General Revenues:					
Grants and Entitlements not Restricted to Specific Programs					13,562,196
Gifts and Donations					1,675
Investment Earnings					50,215
Miscellaneous					40,527
Total General Revenues					<u>13,654,613</u>
Change in Net Assets					4,406,708
Net Assets Beginning of Year - Restated Note 3					<u>(4,429,914)</u>
Net Assets End of Year					<u>(\$23,206)</u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District

Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Construction	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,677,801	\$1,232,197	\$ 2,067,830	\$211,897	\$5,189,725
Receivables:					
Intergovernmental	4,897,236	1,416,780		106,319	6,420,335
Accounts	24,835			188	
Interest	12,728		5,998	500	
Interfund	7,177				
Prepaid Items	3,734				3,734
Materials and Supplies Inventory	31,309			7,443	38,752
Total Assets	<u>\$6,654,820</u>	<u>\$2,648,977</u>	<u>2,073,828</u>	<u>\$326,347</u>	<u>\$11,652,546</u>
Liabilities					
Accounts Payable	\$33,092	\$0	4,331	\$2,500	\$39,923
Accrued Wages and Benefits	580,968			78,607	659,575
Intergovernmental Payable	262,920			16,066	278,986
Deferred Revenue	4,631,511	1,083,208	2,690	43,509	5,760,918
Interfund Payable				7,177	7,177
Contracts Payable	4,000		10,500		14,500
Due to Students	2,744			943	3,687
Total Liabilities	<u>5,515,235</u>	<u>1,083,208</u>	<u>17,521</u>	<u>148,802</u>	<u>6,764,766</u>
Fund Balances					
Reserved for Encumbrances	145,167		127,394	5,378	277,939
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	994,418				994,418
Special Revenue Funds				172,167	172,167
Debt Service Fund		1,565,769			1,565,769
Capital Projects Funds			1,928,913		1,928,913
Total Fund Balances	<u>1,139,585</u>	<u>1,565,769</u>	<u>2,056,307</u>	<u>177,545</u>	<u>4,939,206</u>
Total Liabilities and Fund Balances	<u>\$6,654,820</u>	<u>\$2,648,977</u>	<u>\$2,073,828</u>	<u>\$326,347</u>	<u>\$11,703,972</u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances \$4,939,206

*Amounts reported for governmental activities in the
 Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	566,358	
Capital assets	15,398,690	
Accumulated depreciation	(3,874,484)	
Total capital assets	12,090,564	12,090,564

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Intergovernmental	438,583	
Interest	8,623	
Accounts	13,749	
	460,955	460,955

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(16,850,810)	
Accrued Interest	(80,543)	
Compensated Absences	(582,578)	
Total liabilities	(17,513,931)	(17,513,931)

Net Assets of Governmental Activities (\$23,206)

See accompanying notes to the basic financial statements

Manchester Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Construction	All Other Governmental Funds	Total Governmental Funds
Revenues:					
Intergovernmental	11,414,558	1,749,226		1,045,419	14,209,203
Interest	44,506	0	17,126	1,416	63,048
Tuition and Fees	251,781	0		0	251,781
Extracurricular Activities	0	0		82,514	82,514
Customer Services	0	0		169,451	169,451
Gifts and Donations	1,675	0		7,946	9,621
Miscellaneous	26,778	0		5,206	31,984
Total Revenues	11,739,298	1,749,226	17,126	1,311,952	14,817,602
Expenditures:					
Current:					
Instruction:					
Regular	3,216,274	0		98,424	3,314,698
Special	882,981	0		544,217	1,427,198
Vocational	719,612	0		0	719,612
Support Services:					
Pupils	475,796	0		56,902	532,698
Instructional Staff	248,883	0		66,421	315,304
Board of Education	154,100	0		0	154,100
Administration	733,772	0		0	733,772
Fiscal	306,088	0		0	306,088
Operation and Maintenance of Plant	818,791	0		6,107	824,898
Pupil Transportation	509,892	0		0	509,892
Operation of Non-Instructional Services				481,086	481,086
Operation of Non-Instructional Services:					
Food Services	0	0		10,050	10,050
Extracurricular Activities	121,490	0		100,766	222,256
Capital Outlay	0	0	378,819	0	378,819
Debt Service:					
Principal	0	534,535		0	534,535
Interest and Fiscal Charges	0	1,049,077		0	1,049,077
Total Expenditures	8,187,679	1,583,612	378,819	1,363,973	11,514,083
Excess of Revenue Over (Under) Expenditures	3,551,619	165,614	(361,693)	(52,021)	3,303,519
Other Financing Sources (Uses):					
Transfers In	0	108,399	2,375,000	10,500	2,493,899
Transfers Out	(2,493,899)	0		0	(2,493,899)
Proceeds from Sale of Capital Assets	6,918	0	43,000	0	49,918
Total Other Financing Sources (Uses)	(2,486,981)	108,399	2,418,000	10,500	49,918
Net Change in Fund Balances	1,064,638	274,013	2,056,307	(41,521)	3,353,437
Fund Balances at Beginning of Year	74,947	1,291,756	0	219,066	1,585,769
Fund Balances at End of Year	<u>\$1,139,585</u>	<u>\$1,565,769</u>	<u>\$2,056,307</u>	<u>\$177,545</u>	<u>\$4,939,206</u>

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$3,353,437

*Amounts reported for governmental activities in the
 Statement of Activities are different because:*

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	655,018	
Depreciation expense	(467,381)	
Excess of capital outlay over depreciation expense	187,637	187,637

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of the capital assets are removed from the capital asset account in the Statement of Net Assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the Statement of Activities.

Proceeds from Sale of Capital Assets	(49,918)	
Loss on Disposal of Capital Assets	(36,339)	
	(86,257)	(86,257)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Intergovernmental	438,583	
Interest	8,623	
Accounts	13,749	
	460,955	460,955

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

Bond principal retirement	534,535	
Total long-term debt repayment	534,535	534,535

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	2,594	
Increase in compensated absences	(46,193)	
Total additional expenditures	(43,599)	(43,599)

Change in Net Assets of Governmental Activities \$4,406,708

See accompanying notes to the basic financial statements

Manchester Local School District
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Intergovernmental	\$ 11,078,536	\$ 11,182,036	\$ 11,204,322	\$ 22,286
Interest	20,000	44,320	29,298	(15,022)
Tuition and Fees	215,200	231,972	254,525	22,553
Rent	5,000	2	2	
Miscellaneous	16,210	17,345	17,365	20
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	11,334,946	11,475,675	11,505,512	29,837
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,744,453	2,909,321	2,786,646	122,675
Special	820,568	773,044	752,560	20,484
Vocational	758,915	755,421	750,869	4,552
Support Services:				
Pupils	447,597	464,456	456,345	8,111
Instructional Staff	215,271	228,368	222,278	6,090
Board of Education	113,192	166,921	158,057	8,864
Administration	694,973	699,994	683,838	16,156
Fiscal	291,504	308,355	302,905	5,450
Operation and Maintenance of Plant	748,176	856,589	820,254	36,335
Pupil Transportation	588,155	522,569	502,446	20,123
Extracurricular Activities:				
Academic Oriented Activities	44,820	52,234	17,869	34,365
Sport Oriented Activities	78,040	118,670	106,098	12,572
Capital Outlay:				
Site Improvement Services	30,000	18,710	18,710	
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	7,575,664	7,874,652	7,578,875	295,777
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	3,759,282	3,601,023	3,926,637	325,614
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Fixed Assets	2,380	6,918	6,918	
Transfers Out	(3,243,748)	(2,493,898)	(2,493,898)	
Advances Out		(7,180)	(7,177)	3
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources and Uses	(3,241,368)	(2,494,160)	(2,494,157)	3
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	517,914	1,106,863	1,432,480	325,617
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance (Deficit) at End of Year	<u>\$ 517,914</u>	<u>\$ 1,106,863</u>	<u>\$ 1,432,480</u>	<u>\$ 325,617</u>

See accompanying notes to the basic financial statements

Manchester Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$8,677	\$32,068
Liabilities		
Undistributed Monies	0	\$32,068
Net Assets		
Held in Trust for Scholarships	\$8,677	

See Accompanying Notes to the Basic Financial Statements

Manchester Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$10,613
Interest	64
	10,677
Total Additions	10,677
Deductions:	
Scholarships Awarded	2,000
	8,677
Change in Net Assets	8,677
Net Assets End of Year	\$8,677

See Accompanying Notes to the Basic Financial Statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Manchester Local School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members that were appointed by the South Central Ohio Educational Service Center upon the district’s creation. In the November, 2005 General Election three board members will run for four year terms and two will run for two year terms to obtain the staggered terms of office. The School District provides educational services as authorized by State statute and federal guidelines.

The Manchester Local School District was established in 2004 through the deconsolidation of existing land areas in the Adams County/Ohio Valley School District. The School District serves an area of approximately 115 square miles. It is located in Adams Counties, and includes the Villages of Manchester and Rome, all of Manchester Township, portions of Green, Monroe and Spriggs Townships. The School District is staffed by 42 non-certificated employees, 71 certificated teaching personnel and 6 administrative employees who provide services to 899 students and other community members. The School District currently operates 3 instructional buildings and 1 bus garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Manchester Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in the two jointly governed organizations and two insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Hopewell Special Education Regional Resource Center (Hopewell), the Schools of Ohio Risk Sharing Authority, and the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan (GRP). These organizations are presented in Notes 17 and 18 of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District fall within two categories: governmental and fiduciary.

Governmental Funds

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

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and certain other long-term obligations when the School District is obligated for the payment.

Construction Fund - The Construction Fund is used to account for the resources for, and the payment of, construction projects and other asset investments having a useful life over one year.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

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

C. Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements:

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

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 and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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 School District, "available" means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes levied by the Adams County/Ohio Valley School District and distributed to Manchester Local School District as grants and entitlements not restricted to specific programs, 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 7). 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 year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, grants are considered to be both measurable and available at fiscal year-end.

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. These property taxes are levied by the Adams County/Ohio Valley School District and distributed to Manchester Local School District as grants and entitlements not restricted to specific programs. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents” on the financial statements.

During fiscal year 2005, the School District’s investments were limited to certificate of deposits, commercial paper and federal government agency securities.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$44,506 and \$18,606 assigned to other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of purchased and donated food held for resale and consumable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) 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 School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 30 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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, compensated absences 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 in the current fiscal year. Bonds and loans are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

The government-wide statement of net assets reports \$1,837,397 of restricted net assets, of which \$1,562,421 are restricted by enabling legislation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Fund Balance Reserves

The School 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.

N. Interfund Transactions

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 financial statements.

O. Estimates

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

P. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles

For fiscal year 2005, the School District has implemented *GASB Statement No. 40, “Deposit and Investment Risk Disclosures”*, *GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”* and *GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”*.

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin had no effect on the School District’s financial statements for fiscal year 2005.

NOTE 4 – ACCOUNTABILITY

At June 30, 2005, the Title IIA Special Revenue Fund had a deficit fund balance of \$334. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. The change of fair value of investments is not included on the budget basis operating statement. This amount is included on the GAAP basis operating statement.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$1,064,638
Adjustments:	
Revenue Accruals	(225,597)
Expenditure Accruals	845,946
Encumbrances	(237,141)
Advances	(7,177)
Change in Fair Value of Investments	(8,189)
Budget Basis	\$1,432,480

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits that the Board 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.

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or securities issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, \$4,444,910 of the School District's bank balance of \$4,544,910 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the School District had the following investments, which are in an internal investment pool:

	Fair Value	<u>Maturity</u>
Federal Home Loan Mortgage Corporation Discount Notes	\$791,840	10/18/2005
Commerical Paper	250,000	12/31/2005
	<u>\$1,041,840</u>	

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase.

Credit Risk

The Federal Home Loan Mortgage Corporation Discount Notes carry a rating of Aaa by Moodys. The Commercial Paper carries a rating of A-1+ by Moodys. The School District has no investment policy that would further limit its investment choices.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Discount Notes and Commercial Paper are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 76 percent is invested in Federal Home Loan Mortgage Corporation Discount Notes and 24 percent is invested in Commercial Paper.

NOTE 7 - PROPERTY TAXES

Due to Manchester Local being created by the South Central Ohio Educational Service Center on January 13, 2004, the district did not become a taxing entity until January, 2005. The first levied taxes will be collected in calendar year 2006.

The 2004 property taxes are levied and assessed by Adams County/Ohio Valley School District on a calendar year basis by while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

The District's assessed values upon which the fiscal year 2005 taxes were collected by Adams County/Ohio Valley School District and paid to the District are:

	Amount	Percentage
Agricultural/Residential and Other Real Estate	\$95,139,360	44.33%
Public Utility	118,854,920	55.39%
Tangible Personal Property	606,280	0.28%
Total Assessed Value	\$214,600,560	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$32.47	

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants and taxes. All receivables are considered collectible in full and will be received in one year due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of intergovernmental receivables follows:

Governmental Activities:	
Adams Co/Ohio Valley SD	\$6,295,115
Hopewell	18,427
IDEA Part B Grant	10,575
Title I Grant	58,149
Title II-A Grant	11,670
Dept of Taxation	473
Fresh Fruit/Vegetable Grant	20,629
Title IV	1,539
Adams County Auditor	3,758
Total Intergovernmental Receivables	<u><u>\$6,420,335</u></u>

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

	Balance at 7/1/04	Additions	Deductions	Balance at 6/30/05
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$286,305	\$280,053	\$0	\$566,358
Capital Assets Being Depreciated:				
Land Improvements	793,506	26,178	0	819,684
Buildings and Improvements	12,485,192	75,624	(43,000)	12,517,816
Furniture, Fixtures and Equipment	1,503,776	183,214	(353,777)	1,333,213
Vehicles	713,384	89,949	(75,356)	727,977
Totals Capital Assets, Being Depreciated	<u>15,495,858</u>	<u>374,965</u>	<u>(472,133)</u>	<u>15,398,690</u>
Less Accumulated Depreciation:				
Land Improvements	(282,406)	(36,066)	0	(318,472)
Building and Improvements	(2,316,689)	(234,107)	717	(2,550,079)
Furniture, Fixtures and Equipment	(943,346)	(141,902)	313,930	(771,318)
Vehicles	(250,538)	(55,306)	71,229	(234,615)
Total Accumulated Depreciation	<u>(3,792,979)</u>	<u>(467,381)</u>	<u>385,876</u>	<u>(3,874,484)</u>
Total Capital Assets Being Depreciated, Net	<u>11,702,879</u>	<u>(92,416)</u>	<u>(86,257)</u>	<u>11,524,206</u>
Governmental Activities Capital Assets, Net	<u>\$11,989,184</u>	<u>\$187,637</u>	<u>(\$86,257)</u>	<u>\$12,090,564</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$234,035
Special	51,361
Vocational	10,989
Support Services:	
Pupils	18,913
Instructional Staff	9,343
Administration	17,172
Fiscal	4,919
Operation and Maintenance of Plant	27,006
Pupil Transportation	55,620
Operation of Non-Instructional Services - Food Services	27,148
Extracurricular Activities	10,875
Total Depreciation Expense	<u>\$467,381</u>

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Indiana Insurance Agency for property insurance, inland marine and commercial auto coverage. Coverage is as follows:

Building and contents (\$5,000 Deductible)	\$23,918,058
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The School District, along with other school districts in Ohio, participates in the Schools of Ohio Risk Sharing Authority, Inc. Plan (SORSA), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the SORSA (See Note 18).

Insurance coverage provided includes the following:

Fleet Insurance Coverages

Combined single Limit Liability	\$1,000,000
Auto Medical Payments	5,000
Uninsured Motorist	1,000,000
Comprehensive	ACV or cost of repair, whichever is less Minus the applicable deductibles
Collision	ACV or cost of repair, whichever is less Minus the applicable deductibles

General Liability

Each Occurrence Limit	2,000,000
General Aggregate Limit	4,000,000
Employee Benefits Liability	1,000,000
Errors or Omissions Limit (\$5,000 deductible)	2,000,000
Fire Damage Limit (any one fire)	500,000
Medical Expense (per person/accident)	1,000
Medical Expense (each accident)	5,000
Vehicle Liability Limit	2,000,000

Settled claims have not exceeded this commercial coverage in the past year.

NOTE 10 - RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 Sheakley Iniserve, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The School 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 (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2005 was \$102,886; 91 percent has been contributed for fiscal year 2005.

NOTE 11 - PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

The School 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, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - PENSION PLANS (continued)

The School District's required contributions for pension obligations for the fiscal year ended June 30, 2005 was \$554,952; 85 percent has been contributed for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,845 made by the School District and \$3,662 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, four of the School District's members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 on a pay-as-you-go basis.

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$42,689 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$51,199.

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 the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Twelve month administrators earn twenty days of vacation per fiscal year. Up to two years accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for teachers, 260 for classified employees and the number of days in each administrator contract. Teachers may accumulate for retirement severance purposes an unlimited number of days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave. The District offers a super-severance provision for teachers and administrators who retire in their first year of eligibility. Under this policy, payment is made for one-half of the accumulated sick leave credit up to a maximum of one hundred days.

NOTE 13 - EMPLOYEE BENEFITS (continued)

B. Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Met Life Insurance Company at the expense of the Board of Education. The School District has elected to provide employee medical/surgical/dental/vision benefits through Medical Mutual. The cost of health, dental and vision premiums are completely paid by the Board of Education.

C. Perfect Attendance Incentive

Teachers are paid an extra five days at their daily rate for perfect attendance. Teachers with unused personal days at the end of the year are paid at the rate of one hundred twenty dollars per day. Eleven and twelve month classified employees with perfect attendance receive \$325.00 and nine and ten month classified employees receive \$250.00.

D. Deferred Compensation

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan and the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - LONG-TERM OBLIGATIONS

As a part of the deconsolidation process between the Districts, in accordance to Ohio Revised Code 3311.26, Manchester Local School District assumed 45.78% of the outstanding debt. The debt remains in the name of Adams County/Ohio Valley School District and Manchester Local School District sends Adams County/Ohio Valley School District the required 45.78% as payments become due.

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

	Amount Outstanding 7/1/04	Additions	Deductions	Amount Outstanding 6/30/05	Amounts Due in One Year
<i><u>Governmental Activities:</u></i>					
School Improvement Bonds 1995 - 4.55% - 5.25%	\$16,801,260	0	\$457,800	\$16,343,460	\$457,800
Energy Conservation Bonds 2002 - 4.33% - 5.92%	509,030	0	54,936	454,094	54,936
School Improvement Bonds 1998 - 4.87%	54,936	0	13,734	41,202	13,734
EPA Asbestos Loan 1987 0%	20,119	0	8,065	12,054	8,065
Compensated Absences	536,385	73,389	27,196	582,578	21,968
Total Governmental Activities Long-Term Obligations	<u>\$17,921,730</u>	<u>\$73,389</u>	<u>\$561,731</u>	<u>\$17,433,388</u>	<u>\$556,503</u>

School Improvement Bonds 1995

On May 15, 1995, Adams County/Ohio Valley School District issued \$44,000,000 in voted general obligation bonds for the purpose of building new high schools and improvements to existing buildings. The bonds were issued for a twenty-seven year period with final maturity at December 1, 2021. On July 1, 2004, Manchester Local School District assumed \$16,801,260 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

Energy Conservation Bonds 2002

On June 18, 2001, Adams County/Ohio Valley School District issued \$1,293,047 in unvoted general obligation bonds for the purpose of providing energy conservation measures. The bonds were issued for ten years with final maturity at July 2, 2011. On July 1, 2004, Manchester Local School District assumed \$509,030 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

School Improvement Bonds 1998

On August 24, 1998, Adams County/Ohio Valley School District issued \$300,000 in unvoted general obligation bonds for the purpose of acquiring a bus garage. The bonds were issued for a nine year period with final maturity at December 1, 2007. On July 1, 2004, Manchester Local School District assumed \$54,936 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

EPA Asbestos Loan

On March 25, 1987, Adams County/Ohio Valley School District obtained a loan in the amount of \$317,092 for the purpose of providing asbestos removal for the District, under the authority of Ohio Revised Code section 3317.22. The loan was issued for a twenty year period with final maturity during fiscal year 2007. On July 1, 2004, Manchester Local School District assumed \$20,119 of the outstanding bond amount. The bonds will be retired from the Debt Service Fund.

Compensated absences will be paid from the General, Food Service, Idea Part B, Title 1, and Title II Funds.

The School District's overall legal debt margin was \$4,483,103 with an unvoted debt margin of \$214,601, and an Energy Conservation debt margin of \$1,477,311 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

School Improvement Bonds 1995

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$457,800	\$949,294	\$1,407,094
2007	549,360	919,652	1,469,012
2008	595,140	889,311	1,484,451
2009	640,920	855,926	1,496,846
2010	686,700	819,405	1,506,105
2011-2015	4,394,880	3,283,112	7,677,992
2016-2020	6,042,960	1,618,123	7,661,083
2021-2022	2,975,700	158,628	3,134,328
Total	<u>\$16,343,460</u>	<u>\$9,493,451</u>	<u>\$25,836,911</u>

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

Energy Conservation Bonds 2001

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$54,936	\$25,423	\$80,359
2007	68,670	22,001	90,671
2008	82,404	17,360	99,764
2009	82,404	12,482	94,886
2010	82,404	7,603	90,007
2011	83,276	2,725	86,001
Total	<u>\$454,094</u>	<u>\$87,594</u>	<u>\$541,688</u>

School Improvement Bonds 1998

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$13,734	\$1,673	\$15,407
2007	13,734	1,004	14,738
2008	13,734	335	14,069
Total	<u>\$41,202</u>	<u>\$3,012</u>	<u>\$44,214</u>

EPA Asbestos Loan 1987

Fiscal Year Ending June 30,	Principal
2006	\$8,065
2007	3,989
Total	<u>\$12,054</u>

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 – INTERFUND ACTIVITY

A. Interfund Transfers

Transfers made during the year-ended June 30, 2005, were as follows:

Transfer To	Transfer From
	<u>General Fund</u>
Debt Service Funds	\$108,399
Capital Improvement Funds	2,375,000
All Other Nonmajor Governmental Funds	<u>10,500</u>
	<u><u>\$2,493,899</u></u>

The transfers were made to make debt payments, cover EMIS expenditures and establish a capital improvement fund for construction and renovations.

B. Interfund Receivables/Payables

As of June 30, 2005, receivables and payables that resulted from various interfund transactions were as follows:

Payable	Receivable
	<u>General Fund</u>
All Other Nonmajor Governmental Funds	<u><u>\$7,177</u></u>

The amounts due to the General Fund are the result of the timing of the payment received from Ohio Department of Education and Adams County Auditor for reimbursement grants. The General Fund will be reimbursed when funds become available in the Food Service Fund and the Family/Children 1st Fund.

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

Manchester Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0
Current Year Set-aside Requirement	124,199	124,199
Current Year Offsets	0	43,000
Qualifying Disbursements	(185,518)	(363,988)
Set-aside Balance Carried		
Forward to Future Years	(\$61,319)	\$0
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association (SCOCA)

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$66,476 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

B. Hopewell Special Education Regional Resource Center (Hopewell)

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the Clinton-Fayette-Highland Educational Service District, a representative from the board of mental

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Hopewell Special Education Regional Resource Center (Hopewell)

retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and federal and State grants. To obtain financial information write to Hopewell at the Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, Ohio, 45177.

NOTE 18 - INSURANCE PURCHASING POOL

A. Schools of Ohio Risk Sharing Authority, Inc.

The School District participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), is a risk sharing pool serving school districts in Ohio. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to District property and persons and property which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and educators' errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one representative on the board at any time. Each member school district's control over the budgetary and financing of SORSA is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 655 Metro Place South, Suite 900, Dublin, Ohio 43017

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

In fiscal year 2005, the School District participated in the Ohio Association of School Business Officials' Compensation Group Rating Plan (GRP) an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School 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

NOTE 18 - INSURANCE PURCHASING POOL (continued)

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 Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the GRP.

NOTE 19 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

The School District is not party to any legal proceeding.

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MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$50,277	\$0	\$50,277
School Breakfast Program	05-PU-05	10.553	56,287		56,287	
National School Lunch Program	LL-P4-05	10.555	136,828		136,828	
	LL-P4-04	10.555	24,077		24,077	
	LL-P1-05	10.555	503		503	
Total U.S. Department of Agriculture, Child Nutrition Cluster			<u>217,695</u>	<u>50,277</u>	<u>217,695</u>	<u>50,277</u>
Fresh Fruit and Vegetable Program	VG-S1-05	10.582	14,351		14,351	
Total U.S. Department of Agriculture			<u>232,046</u>	<u>50,277</u>	<u>232,046</u>	<u>50,277</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title 1 Grants to Local Educational Agencies	C1-S1-05	84.010	263,179		256,778	
Special Education - Grants to States	6B-PM-05	84.027	255,307		248,534	
Safe and Drug -Free Schools and Communities-State Grants	DR-S1-05	84.186	6,747		6,108	
Innovative Educational Program Strategies	C2-S1-05	84.298	4,482		4,482	
Technology Literacy Challenge	TJ-S1-05	84.318	8,543		8,543	
Rural Education	RU-S1-05	84.358	27,983		27,983	
Improving Teacher Quality State Grants	TR-S1-05	84.367	70,166		69,103	
Total U.S. Department of Education			<u>636,407</u>		<u>621,531</u>	
<u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u>						
Toxic Substances Compliance Monitoring Cooperative		66.701	<u>0</u>		<u>8,064</u>	
Totals			<u>\$868,453</u>	<u>\$50,277</u>	<u>\$861,641</u>	<u>\$50,277</u>

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

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

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

Manchester Local School District
Adams County
130 Wayne Frye Drive
Manchester, Ohio 45144

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Local School District, Adams County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 18, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 18, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 18, 2006



Auditor of State Betty Montgomery

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

Manchester Local School District
130 Wayne Frye Drive
Manchester, Ohio 45144

To the Board of Education:

Compliance

We have audited the compliance of Manchester Local School District, Adams County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Manchester Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 18, 2006

**MANCHESTER LOCAL SCHOOL DISTRICT
ADAMS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster, CFDA#'s 10.550, 10.553, & 10.555 Title 1, CFDA# 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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MANCHESTER LOCAL SCHOOL DISTRICT

ADAMS 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
JUNE 13, 2006**