

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

CONNIE HANGE, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Black River Local School District
257-A County Road 40
Sullivan, Ohio 44880

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 28, 2007

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BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Black River Local School District
257 County Road 40
Sullivan, Ohio 44880

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

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

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

In accordance with *Government Auditing Standards*, we have also issued on our report dated December 21, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Black River Local School District
Page Two

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Black River Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
December 21, 2006

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$1,054,572 which represents a 10.30% decrease from 2005.
- General revenues accounted for \$12,373,202 in revenue or 85.41% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$2,113,284 or 14.59% of total revenues of \$14,486,486.
- The District had \$15,541,058 in expenses related to governmental activities; only \$2,113,284 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,373,202 were not adequate to provide for these programs.
- The District's major governmental funds are the general, debt service, and permanent improvement funds. The general fund had \$11,910,120 in revenues and \$12,891,502 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$981,382 from a balance of \$3,036,713 to \$2,055,331.
- One of the District's other major governmental funds is the debt service fund. The debt service fund had \$721,285 in revenues and \$803,782 in expenditures. During fiscal year 2006, the debt service fund's fund balance decreased \$82,497 from \$1,499,612 to \$1,417,115.
- One of the District's other major governmental funds is the permanent improvement fund. The permanent improvement fund had \$115,520 in expenditures. During fiscal year 2006, the permanent improvement fund's fund balance decreased \$115,520 from \$1,604,387 to \$1,488,867.

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-47 of this report.

The District as a Whole

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

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 11,127,453	\$ 11,956,691
Capital assets, net	<u>9,781,937</u>	<u>10,039,362</u>
Total assets	<u>20,909,390</u>	<u>21,996,053</u>
<u>Liabilities</u>		
Current liabilities	5,827,738	5,533,755
Long-term liabilities	<u>5,900,962</u>	<u>6,227,036</u>
Total liabilities	<u>11,728,700</u>	<u>11,760,791</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,766,001	5,601,869
Restricted	3,238,949	3,380,704
Unrestricted	<u>175,740</u>	<u>1,252,689</u>
Total net assets	<u>\$ 9,180,690</u>	<u>\$ 10,235,262</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$9,180,690.

At year-end, capital assets represented 46.78% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$5,766,001. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

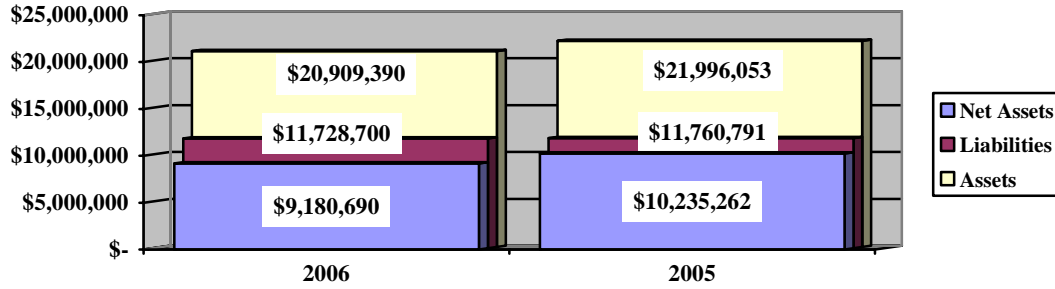
A portion of the District's net assets, \$3,238,949, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$175,740 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental activities net assets of the District decreased \$1,054,572 between fiscal years 2006 and 2005.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Governmental Activities



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

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues:		
Charges for services and sales	\$ 879,847	\$ 791,869
Operating grants and contributions	1,214,877	1,148,779
Capital grants and contributions	18,560	-
General revenues:		
Property taxes	4,517,924	4,628,945
Grants and entitlements	7,625,515	7,179,545
Investment earnings	197,191	151,758
Miscellaneous	32,572	21,206
Total revenues	\$ 14,486,486	\$ 13,922,102

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Change in Net Assets

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,584,604	\$ 5,703,155
Special	2,274,786	2,151,576
Vocational	85,143	80,205
Support services:		
Pupil	640,688	573,413
Instructional staff	693,377	945,286
Board of education	35,822	33,537
Administration	1,197,220	1,043,678
Fiscal	409,753	414,136
Business	4,230	1,255
Operations and maintenance	1,012,529	1,049,346
Pupil transportation	1,076,544	966,760
Central	6,082	1,556
Operations of non-instructional services	86,559	13,278
Extracurricular activities	584,441	512,862
Food service operations	419,410	462,532
Interest and fiscal charges	429,870	420,597
Total expenses	<u>15,541,058</u>	<u>14,373,172</u>
Change in net assets	(1,054,572)	(451,070)
Net assets at beginning of year	<u>10,235,262</u>	<u>10,686,332</u>
Net assets at end of year	<u><u>\$ 9,180,690</u></u>	<u><u>\$ 10,235,262</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,054,572. Total governmental expenses of \$15,541,058 were offset by program revenues of \$2,113,284 and general revenues of \$12,373,202. Program revenues supported 13.60% of the total governmental expenses.

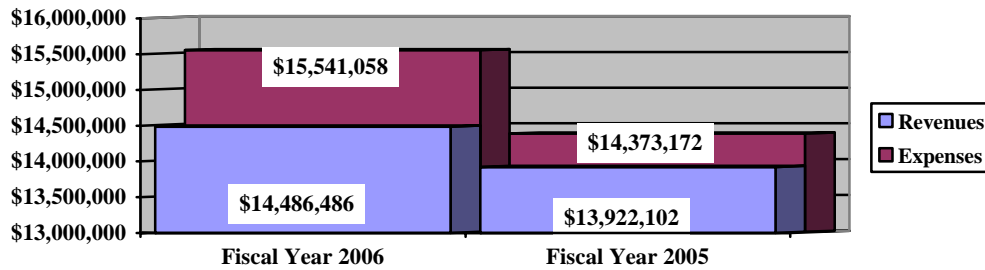
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.83% of total governmental revenue. Real estate property is reappraised every six years.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 6,584,604	\$ 6,123,013	\$ 5,703,155	\$ 5,211,397
Special	2,274,786	1,604,833	2,151,576	1,559,698
Vocational	85,143	85,143	80,205	80,205
Support services:				
Pupil	640,688	537,827	573,413	451,450
Instructional staff	693,377	667,965	945,286	893,524
Board of education	35,822	35,666	33,537	33,537
Administration	1,197,220	1,190,167	1,043,678	994,890
Fiscal	409,753	394,880	414,136	408,806
Business	4,230	4,230	1,255	1,255
Operations and maintenance	1,012,529	1,012,529	1,049,346	1,049,346
Pupil transportation	1,076,544	1,076,544	966,760	966,760
Central	6,082	6,082	1,556	1,556
Operations of non-instructional services	86,559	6,119	13,278	6,774
Extracurricular activities	584,441	276,296	512,862	243,784
Food service operations	419,410	(23,390)	462,532	108,945
Interest and fiscal charges	429,870	429,870	420,597	420,597
Total expenses	<u>\$ 15,541,058</u>	<u>\$ 13,427,774</u>	<u>\$ 14,373,172</u>	<u>\$ 12,432,524</u>

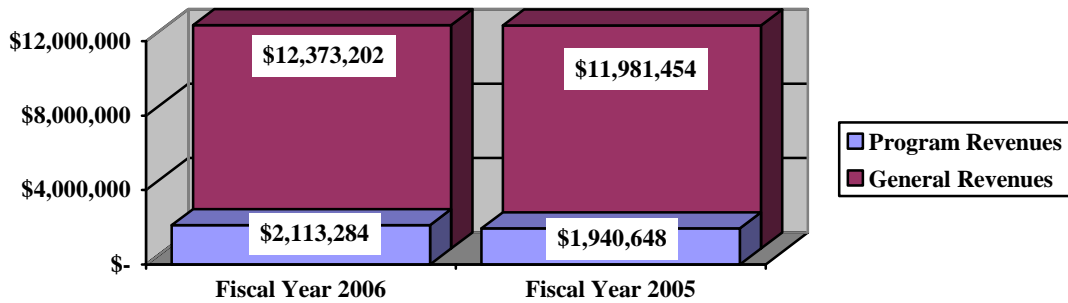
The dependence upon tax and other general revenues for governmental activities is apparent, 87.35% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.40%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$4,801,055, which is lower than last year's balance of \$6,028,921. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase (Decrease)</u>
General	\$ 2,055,331	\$ 3,036,713	\$ (981,382)
Debt Service	1,417,115	1,499,612	(82,497)
Permanent Improvement	1,488,867	1,604,387	(115,520)
Other Governmental	<u>(160,258)</u>	<u>(111,791)</u>	<u>(48,467)</u>
Total	<u>\$ 4,801,055</u>	<u>\$ 6,028,921</u>	<u>\$(1,227,866)</u>

General Fund

The District's general fund's fund balance decreased by \$981,382. The decrease in fund balance can be attributed to a expenditures increasing by 7.90% and revenues only increasing by 1.61%. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,895,597	\$ 4,085,677	(4.65) %
Tuition	164,775	214,837	(23.30) %
Earnings on investments	123,705	151,249	(18.21) %
Intergovernmental	7,553,746	7,124,331	6.03 %
Other revenues	<u>172,297</u>	<u>144,946</u>	18.87 %
Total	<u>\$ 11,910,120</u>	<u>\$ 11,721,040</u>	1.61 %
<u>Expenditures</u>			
Instruction	\$ 7,856,807	\$ 6,907,169	13.75 %
Support services	4,746,836	4,610,140	2.97 %
Operation of non-instructional services	23,472	12,578	86.61 %
Extracurricular activities	207,170	183,103	13.14 %
Capital outlay	-	129,004	(100.00) %
Facilities acquisition and construction	7,500	56,705	(86.77) %
Debt service	<u>46,334</u>	<u>46,334</u>	- %
Total	<u>\$ 12,888,119</u>	<u>\$ 11,945,033</u>	7.90 %

Debt Service Fund

The District's debt service fund's fund balance decreased by \$82,497. The debt service fund had \$721,285 in revenues and \$803,782 in expenditures.

Permanent Improvement Fund

The District's permanent improvement fund's fund balance decreased by \$115,520. This fund only had expenditures of \$115,520 which decreased beginning fund balance by \$115,520 resulting in a ending balance of \$1,488,867.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$12,549,499, which was higher than the original budgeted revenues and other financing sources estimate of \$11,567,524. Actual revenues and other financing sources for fiscal year 2006 were \$12,388,651. This represents a \$160,848 decrease from the final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,322,404 were increased to \$13,210,425 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$13,273,293, which was \$62,869 more than the final budget appropriations.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$9,781,937 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 363,000	\$ 363,000
Land improvements	432,846	443,973
Building and improvements	8,113,999	8,296,085
Furniture and equipment	466,897	555,408
Vehicles	<u>405,195</u>	<u>380,896</u>
Total	<u>\$ 9,781,937</u>	<u>\$ 10,039,362</u>

Total additions to capital assets for 2006 were \$187,916. The District recorded \$445,341 in depreciation expense for fiscal year 2006.

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

Debt Administration

At June 30, 2006, the District had \$5,213,783 in general obligation bonds outstanding and \$44,495 in capital lease obligations. Of this total, \$684,495 is due within one year and \$4,573,783 is due within greater than one year. The following table summarizes the bonds outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds and capital appreciation bonds		
1994 improvement bonds	\$ 1,188,697	\$ 1,416,531
2001 refunding bonds	4,025,086	4,172,180
Capital lease obligation	<u>44,495</u>	<u>87,498</u>
Total	<u>\$ 5,258,278</u>	<u>\$ 5,676,209</u>

The improvement bonds were received in 1994. These bonds consist of capital appreciation bonds and are scheduled to mature in fiscal year 2009, bearing interest rates ranging from 4.40% to 10.96%. Payment of principal and interest on the 1994 improvement bonds are being made from the debt service fund.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

The refunding bonds were received in 2001. These bonds are scheduled to mature in fiscal year 2020 and bear interest rates ranging from 4.67% to 25.815%. Payment of principal and interest on the 2001 refunding bonds are being made from the debt service fund.

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

Current Financial Related Activities

Funding

Black River Local School District is a rural school district that encompasses 125 square miles in southwestern Medina, southern Lorain and northern Ashland counties. The State Foundation Formula is the primary funding source of education to the District and represents approximately 60% of revenue. This funding calculation is affected by local property valuation changes and as valuations increase, the state funding is decreased. Since 1997, local property valuations have increased 81% or \$78 million, from \$96 million to \$174 million in 2006. Another significant factor in this calculation is student enrollment, which has increased 72% or 746 students, from 1,033 students in fiscal year 1998 to 1,779 students in fiscal year 2006. The cumulative increase in basic aid for the District from fiscal year 1998 to fiscal year 2006 is 64% or \$2.5 million. Tax collections have increased 33% or approximately \$1 million from \$3.0 million to \$4.0 million. Voters last approved a new operating levy in 1997.

Budget

Approximately 83% of the general fund budget is expended for employee wages and fringe benefits. These costs, including health benefits, have been increasing at a rate almost double to that of recent revenue growth. In the past three years, major renovations made to the high school heating system and the addition of an eight classroom modular complex were paid for from the general fund. Going forward, additional work to the high school heating system, the heating and cooling system in the Black River Education Center, as well as other permanent improvements will be paid for from these monies. As expenditures continue to increase at rates exceeding revenue growth, the District is challenged to monitor its budget so as to continue to strive for academic excellence while remaining financially sound. The State has cut funding to schools as legislators continue to struggle to balance that budget. At the same time, The Governor's Blue Ribbon Task Force on Financing Student Success has yet to provide any solutions. Forecasting beyond one year is uncertain at best.

Facilities

The District had chosen to participate in the Ohio School Facilities Commission Expedited Local Partnership Program. A comprehensive facilities plan is in progress. The first stage of this facilities plan is the construction of a new high school, for which voters rejected a 6.88 mill bond issue in November 2004 and a 6.46 mill bond issue in February 2005. As the District continues to grow and the learning environment continues to change, there is a real need to expand and update our buildings. However, due to voter response, no definitive plan is in place.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Connie I. Hange, Treasurer, Black River Local School District, 257-A County Road 40, Sullivan, Ohio 44880.

**BASIC
FINANCIAL STATEMENTS**

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,834,668
Receivables:	
Taxes	5,068,044
Accounts	6,293
Intergovernmental	153,876
Accrued interest	24,572
Prepayments	35,882
Materials and supplies inventory	4,118
Capital assets:	
Land	363,000
Depreciable capital assets, net.	9,418,937
Capital assets, net	9,781,937
 Total assets.	 20,909,390
 Liabilities:	
Accounts payable.	93,433
Accrued wages and benefits	1,351,567
Pension obligation payable.	319,606
Intergovernmental payable	57,524
Deferred revenue	3,981,399
Accrued interest payable	24,209
Long-term liabilities:	
Due within one year.	709,762
Due in more than one year	5,191,200
	11,728,700
 Total liabilities	 11,728,700
 Net Assets:	
Invested in capital assets, net of related debt.	5,766,001
Restricted for:	
Capital projects	1,488,867
Debt service.	1,433,470
Locally funded program	3
State funded program	16,549
Federally funded program	69,527
Other purposes	230,533
Unrestricted.	175,740
 Total net assets	 \$ 9,180,690

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

		Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Instruction:						
Regular	\$ 6,584,604	\$ 296,611	\$ 146,420	\$ 18,560	\$ (6,123,013)	
Special	2,274,786	-	669,953	-	(1,604,833)	
Vocational	85,143	-	-	-	(85,143)	
Support services:						
Pupil	640,688	-	102,861	-	(537,827)	
Instructional staff	693,377	-	25,412	-	(667,965)	
Board of education	35,822	-	156	-	(35,666)	
Administration	1,197,220	-	7,053	-	(1,190,167)	
Fiscal	409,753	-	14,873	-	(394,880)	
Business	4,230	-	-	-	(4,230)	
Operations and maintenance	1,012,529	-	-	-	(1,012,529)	
Pupil transportation	1,076,544	-	-	-	(1,076,544)	
Central	6,082	-	-	-	(6,082)	
Operation of non-instructional	86,559	16,532	63,908	-	(6,119)	
Extracurricular activities	584,441	308,082	63	-	(276,296)	
Food service operations	419,410	258,622	184,178	-	23,390	
Interest and fiscal charges	429,870	-	-	-	(429,870)	
Total governmental activities	<u>\$ 15,541,058</u>	<u>\$ 879,847</u>	<u>\$ 1,214,877</u>	<u>\$ 18,560</u>	<u>(13,427,774)</u>	
General Revenues:						
Property taxes levied for:						
General purposes					3,923,806	
Debt service					594,118	
Grants and entitlements not restricted to specific programs					7,625,515	
Investment earnings					197,191	
Miscellaneous					32,572	
Total general revenues					<u>12,373,202</u>	
Change in net assets					(1,054,572)	
Net assets at beginning of year					<u>10,235,262</u>	
Net assets at end of year					<u>\$ 9,180,690</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,765,328	\$ 1,324,081	\$ 1,524,653	\$ 175,484	\$ 5,789,546
Receivables:					
Taxes	4,453,280	614,764	-	-	5,068,044
Accounts	6,243	-	-	50	6,293
Intergovernmental	-	-	-	153,876	153,876
Accrued interest	24,572	-	-	-	24,572
Interfund loans	155,888	-	-	-	155,888
Prepayments	35,882	-	-	-	35,882
Materials and supplies inventory	-	-	-	4,118	4,118
Advances to other funds	18,704	-	-	-	18,704
Restricted assets:					
Equity in pooled cash and cash equivalents	45,122	-	-	-	45,122
Total assets	<u>\$ 7,505,019</u>	<u>\$ 1,938,845</u>	<u>\$ 1,524,653</u>	<u>\$ 333,528</u>	<u>\$ 11,302,045</u>
Liabilities:					
Accounts payable	\$ 51,363	\$ -	\$ 35,786	\$ 6,284	\$ 93,433
Accrued wages and benefits	1,206,238	-	-	145,328	1,351,566
Compensated absences payable	-	-	-	1,577	1,577
Pension obligation payable	293,624	-	-	25,982	319,606
Intergovernmental payable	53,139	-	-	4,386	57,525
Advances from other funds	-	-	-	18,704	18,704
Interfund loans payable	-	-	-	155,888	155,888
Deferred revenue	3,845,324	521,730	-	135,637	4,502,691
Total liabilities	<u>5,449,688</u>	<u>521,730</u>	<u>35,786</u>	<u>493,786</u>	<u>6,500,990</u>
Fund Balances:					
Reserved for encumbrances	407,292	-	100,519	14,176	521,987
Reserved for materials and supplies inventory	-	-	-	4,118	4,118
Reserved for prepayments	35,882	-	-	-	35,882
Reserved for property tax unavailable for appropriation	632,528	93,034	-	-	725,562
Reserved for advances	18,704	-	-	-	18,704
Reserved for debt service	-	1,324,081	-	-	1,324,081
Reserved for capital acquisition	6,897	-	-	-	6,897
Reserved for BWC Refunds	38,225	-	-	-	38,225
Unreserved, undesignated (deficit), reported in:					
General fund	915,803	-	-	-	915,803
Permanent improvement fund	-	-	1,388,348	-	1,388,348
Special revenue funds	-	-	-	(178,552)	(178,552)
Total fund balances (deficit)	<u>2,055,331</u>	<u>1,417,115</u>	<u>1,488,867</u>	<u>(160,258)</u>	<u>4,801,055</u>
Total liabilities and fund balances	<u>\$ 7,505,019</u>	<u>\$ 1,938,845</u>	<u>\$ 1,524,653</u>	<u>\$ 333,528</u>	<u>\$ 11,302,045</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Total governmental fund balances		\$ 4,801,055
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,781,937
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 361,083	
Intergovernmental revenue	135,637	
Interest revenue	24,572	
Total		521,292
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(24,209)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported		
Compensated absences	(641,107)	
General obligation bonds payable	(5,213,783)	
Capital lease obligation	(44,495)	
Total		(5,899,385)
Net assets of governmental activities		\$ 9,180,690

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 3,895,597	\$ 600,602	\$ -	\$ -	\$ 4,496,199
Tuition	164,775	-	-	-	164,775
Charges for services	-	-	-	258,622	258,622
Earnings on investments	123,705	48,914	-	-	172,619
Classroom materials and fees	131,836	-	-	-	131,836
Extracurricular	-	-	-	304,569	304,569
Other local revenues	40,461	-	-	12,156	52,617
Intergovernmental - Intermediate	-	-	-	36,690	36,690
Intergovernmental - State	7,553,746	71,769	-	140,138	7,765,653
Intergovernmental - Federal	-	-	-	990,754	990,754
Total revenues	<u>11,910,120</u>	<u>721,285</u>	<u>-</u>	<u>1,742,929</u>	<u>14,374,334</u>
Expenditures:					
Current:					
Instruction:					
Regular	6,169,806	-	-	183,306	6,353,112
Special	1,607,017	-	-	619,636	2,226,653
Vocational	79,984	-	-	-	79,984
Support services:					
Pupil	507,883	-	-	120,974	628,857
Instructional staff	626,388	-	-	20,438	646,826
Board of education	35,693	-	-	129	35,822
Administration	1,132,163	-	-	9,054	1,141,217
Fiscal	367,046	11,399	-	34,373	412,818
Business	4,230	-	-	-	4,230
Operations and maintenance	990,353	-	59,590	-	1,049,943
Pupil transportation	1,076,998	-	16,530	-	1,093,528
Central	6,082	-	-	-	6,082
Operation of non-instructional services	23,472	-	-	63,087	86,559
Extracurricular activities	207,170	-	-	336,410	543,580
Food service operations	-	-	-	407,783	407,783
Facilities acquisition and construction	7,500	-	39,400	-	46,900
Debt service:					
Principal retirement	43,003	630,000	-	-	673,003
Interest and fiscal charges	3,331	162,383	-	-	165,714
Total expenditures	<u>12,888,119</u>	<u>803,782</u>	<u>115,520</u>	<u>1,795,190</u>	<u>15,602,611</u>
Excess of revenues under expenditures	<u>(977,999)</u>	<u>(82,497)</u>	<u>(115,520)</u>	<u>(52,261)</u>	<u>(1,228,277)</u>
Other financing sources (uses):					
Transfers in	-	-	-	3,383	3,383
Transfers (out)	(3,383)	-	-	-	(3,383)
Total other financing sources	<u>(3,383)</u>	<u>-</u>	<u>-</u>	<u>3,383</u>	<u>-</u>
Net change in fund balances	(981,382)	(82,497)	(115,520)	(48,878)	(1,228,277)
Fund balance (deficit) at beginning					
of year	3,036,713	1,499,612	1,604,387	(111,791)	6,028,921
Increase in reserve for inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>411</u>	<u>411</u>
Fund balances (deficit) at end of year	<u>\$ 2,055,331</u>	<u>\$ 1,417,115</u>	<u>\$ 1,488,867</u>	<u>\$ (160,258)</u>	<u>\$ 4,801,055</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

Net change in fund balances - total governmental funds \$ (1,228,277)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.

Capital asset additions	\$ 187,916	
Current year depreciation	<u>(445,341)</u>	(257,425)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.

411

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

Delinquent property taxes	21,725	
Intergovernmental	65,855	
Accrued interest	<u>24,572</u>	112,152

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

673,003

Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported on the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.

Accrued interest	(9,084)	
Accreted interest on capital appreciation bonds	<u>(255,072)</u>	(264,156)
Total		

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

(90,280)

Change in net assets of governmental activities \$ (1,054,572)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,831,274	\$ 4,168,462	\$ 3,861,750	\$ (306,712)
Tuition	165,483	180,047	164,839	(15,208)
Earnings on investments	160,844	175,000	179,977	4,977
Classroom materials and fees	108,937	118,525	127,330	8,805
Other local revenues	32,674	35,550	38,744	3,194
Intergovernmental - State	6,857,020	7,460,502	7,553,746	93,244
Total revenues	<u>11,156,232</u>	<u>12,138,086</u>	<u>11,926,386</u>	<u>(211,700)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,932,379	6,029,746	6,054,490	(24,744)
Special	1,511,329	1,599,726	1,606,291	(6,565)
Vocational	84,289	77,887	78,207	(320)
Support services:				
Pupil	460,512	517,308	519,431	(2,123)
Instructional staff	832,676	724,718	727,692	(2,974)
Board of education	25,819	36,989	37,141	(152)
Administration	925,923	1,145,247	1,149,947	(4,700)
Fiscal	326,598	379,808	381,367	(1,559)
Business	904	4,213	4,230	(17)
Operations and maintenance	908,854	1,195,503	1,200,409	(4,906)
Pupil transportation	881,761	1,111,955	1,116,518	(4,563)
Central	268	7,252	7,282	(30)
Operation of non-instructional services	12,122	23,318	23,414	(96)
Extracurricular activities	268,519	199,286	200,104	(818)
Facilities acquisition and construction	-	17,469	7,500	9,969
Total expenditures	<u>12,171,953</u>	<u>13,070,425</u>	<u>13,114,023</u>	<u>(43,598)</u>
Excess of revenues over (under) expenditures	<u>(1,015,721)</u>	<u>(932,339)</u>	<u>(1,187,637)</u>	<u>(255,298)</u>
Other financing sources (uses):				
Refund of prior year expenditures	1,379	1,500	6,017	4,517
Transfers (out)	(50,150)	(50,000)	(3,383)	46,617
Advances in	409,913	409,913	456,249	46,336
Advances (out)	(100,301)	(90,000)	(155,888)	(65,888)
Total other financing sources (uses)	<u>260,841</u>	<u>271,413</u>	<u>302,995</u>	<u>31,582</u>
Net change in fund balance	(754,880)	(660,926)	(884,642)	(223,716)
Fund balance at beginning of year	2,952,327	2,952,327	2,952,327	-
Prior year encumbrances appropriated	351,934	351,934	351,934	-
Fund balance at end of year	<u>\$ 2,549,381</u>	<u>\$ 2,643,335</u>	<u>\$ 2,419,619</u>	<u>\$ (223,716)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents.	\$ 27,135	\$ 33,610
Total assets	27,135	\$ 33,610
Liabilities:		
Accounts payable	-	\$ 47
Due to students	-	33,563
Total liabilities	-	\$ 33,610
Net Assets:		
Held in trust for scholarships	27,135	
Total net assets	\$ 27,135	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 598
Gifts and contributions.	138
	736
Total additions.	736
Deductions:	
Scholarships awarded	736
	736
Net assets at beginning of year	27,135
Net assets at end of year	\$ 27,135

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Black River Local School District (the "District") is located in portions of Medina County, Ashland County and Lorain County in Northeast Ohio. The District includes all of the villages of Sullivan, Spencer, Homerville and portions of surrounding townships, covering approximately 125 square miles.

The District was organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 comprehensive school, serving grades K through 8, and 1 high school. The District employs 113 non-certified and 121 certified (including administrative) full-time and part-time employees to provide services to approximately 1,779 students in grades K through 12 and various community groups, which ranks it 320th out of approximately 615 public and community school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

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

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Medina County Career Center

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Lake Erie Educational Computer Association (LEECA)

LEECA is a joint venture among 30 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these school districts supports LEECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. LEECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 39, the District does not have an equity interest in LEECA because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool. The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have proprietary funds.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

GOVERNMENTAL FUNDS

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

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

Debt Service - A fund provided for the retirement of bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans shall be paid into this fund.

Permanent Improvement - A fund provided to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Ohio Revised Code.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities, (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

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

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

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

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except Agency). The specific timetable is as follows:

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2006. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

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

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

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$123,705, which includes \$38,428 assigned from other District funds.

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

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

General capital assets are those related to government activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

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

All reported capital assets except land 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>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". Receivables and payables resulting from long-term interfund loans are classified as "advances to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Restricted assets in general fund represent cash and cash equivalents that are restricted in use by state statute. See Note 17 for details.

Q. Interfund Activity

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

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

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

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

B. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 52,360
District Managed Student Activity	57,506
Student Intervention	3,595
Title VI-B	85,592
Title I, Disadvantaged Children/Targeted Assistance	129,700

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash on Hand

At year-end, the District had \$125 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$867,834. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$218,091 of the District's bank balance of \$912,804 was exposed to custodial risk as discussed below, while \$694,713 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

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

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 Months	13 to 18 Months	19 to 24 Months	Greater than 24 Months
FHLB	\$ 1,417,962	\$ 496,176	\$ -	\$ 338,845	\$ -	\$ 582,941
FFCB	292,500	-	-	292,500	-	-
FHLMC	824,344	-	-	-	-	824,344
FNMA	196,875	99,344	-	-	-	97,531
STAR Ohio	2,295,773	2,295,773	-	-	-	-
	<u>\$ 5,027,454</u>	<u>\$ 2,891,293</u>	<u>\$ -</u>	<u>\$ 631,345</u>	<u>\$ -</u>	<u>\$ 1,504,816</u>

The weighted average maturity of investments is 1.14.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Credit Risk: The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,417,962	28.20
FFCB	292,500	5.82
FHLMC	824,344	16.40
FNMA	196,875	3.92
STAR Ohio	<u>2,295,773</u>	<u>45.66</u>
	<u>\$ 5,027,454</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

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

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 867,834
Investments	5,027,454
Cash on hand	<u>125</u>
Total	<u>\$ 5,895,413</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,834,668
Private-purpose trust fund	27,135
Agency fund	<u>33,610</u>
Total	<u>\$ 5,895,413</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 5 – INTERFUND TRANSACTIONS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 155,888

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

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

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

	<u>Amount</u>
Transfers from General fund to:	
Nonmajor governmental funds	\$ 3,383

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds will be eliminated on the government-wide financials. All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

- C.** Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 18,704

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The long-term interfund balances are not expected to be repaid within one year.

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

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

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Medina, Ashland, and Lorain Counties. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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

The amount available as an advance at June 30, 2006 was \$632,528 in the general fund and \$93,034 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$598,681 in the general fund, and \$97,131 in the debt service fund.

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and public utility/minerals real estate	\$ 142,946,890	84.43	\$ 150,830,870	86.64
Commercial/industrial real estate	5,582,050	3.30	5,742,110	3.30
Public utility personal	12,696,125	7.50	12,813,490	7.36
Tangible personal property	<u>8,092,768</u>	<u>4.77</u>	<u>4,702,922</u>	<u>2.70</u>
Total assessed valuation	<u>\$ 169,317,833</u>	<u>100.00</u>	<u>\$ 174,089,392</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$56.83		\$55.83

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 5,068,044
Accounts	6,293
Accrued interest	24,572
Intergovernmental	<u>153,876</u>
Total	<u>\$ 5,252,785</u>

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 363,000	\$ -	\$ -	\$ 363,000
<i>Capital assets, being depreciated:</i>				
Land improvements	691,928	24,250	-	716,178
Building and improvements	11,665,518	76,533	-	11,742,051
Furniture and equipment	1,106,567	-	-	1,106,567
Vehicles	<u>1,112,673</u>	<u>87,133</u>	<u>-</u>	<u>1,199,806</u>
Total capital assets, being depreciated	<u>14,576,686</u>	<u>187,916</u>	<u>-</u>	<u>14,764,602</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(247,955)	(35,377)	-	(283,332)
Building and improvements	(3,369,433)	(258,619)	-	(3,628,052)
Furniture and equipment	(551,159)	(88,511)	-	(639,670)
Vehicles	<u>(731,777)</u>	<u>(62,834)</u>	<u>-</u>	<u>(794,611)</u>
Total accumulated depreciation	<u>(4,900,324)</u>	<u>(445,341)</u>	<u>-</u>	<u>(5,345,665)</u>
Governmental activities capital assets, net	<u>\$ 10,039,362</u>	<u>\$ (257,425)</u>	<u>\$ -</u>	<u>\$ 9,781,937</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 169,003
Special	40,040
Vocational	5,159
<u>Support Services:</u>	
Pupil	8,393
Instructional staff	45,798
Administration	35,768
Operations and maintenance	18,629
Pupil transportation	67,344
Extracurricular activities	40,861
Food service operation	<u>14,346</u>
Total depreciation expense	<u>\$ 445,341</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the District entered into a capitalized lease for copier equipment. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as general fund expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$129,004. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$43,003 paid by the general fund. Accumulated depreciation at June 30, 2006 was \$86,002 leaving a book balance of \$43,002.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	<u>46,335</u>
Total minimum lease payments	46,335
Less amount representing interest	<u>(1,840)</u>
Total present value	<u>\$ 44,495</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>Rate</u>	<u>Outstanding</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u>	<u>Due in</u>
		<u>06/30/05</u>			<u>06/30/06</u>	<u>One Year</u>
Governmental Activities:						
General obligation bonds	Various	\$ 3,680,000	\$ -	\$ (270,000)	\$ 3,410,000	\$ 280,000
Capital appreciation bonds	Various	1,908,711	255,072	(360,000)	1,803,783	360,000
Capital lease obligations		87,498		(43,003)	44,495	44,495
Compensated absences		<u>550,827</u>	<u>139,880</u>	<u>(48,023)</u>	<u>642,684</u>	<u>25,267</u>
Total long-term obligations, governmental activities		<u>\$ 6,227,036</u>	<u>\$ 394,952</u>	<u>\$ (721,026)</u>	<u>\$ 5,900,962</u>	<u>\$ 709,762</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On April 1, 2001, the District issued general obligation bonds (Series 2001 School Improvement Refunding Bonds) to advance refund the callable portion of the Series 1994 School Improvement General Obligation Bonds (principal \$4,780,000; interest rate 4.40%; stated maturity December 1, 2019). \$5,225,581 of the issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt, which was called for redemption on December 1, 2004, at a cost of 102% of par value, plus accrued interest. This refunded debt is considered defeased (in-substance). The outstanding amount of the defeased debt at June 30, 2006 was \$3,410,000. The advance refunding reduced cash flow required for debt service on general obligation bonds by \$990,001 over 18 years, and resulted in a net present value savings of \$238,793, using an interest rate of 4.6682% from date of delivery.

The refunding issue is comprised of both current interest bonds, par value \$4,585,000, and capital appreciation bonds, par value \$1,160,000. The average interest rate on the current interest bonds is 4.67%. The capital appreciation bonds mature each December 2007 through 2010 (effective interest ranging from 24.022% to 25.815%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported at June 30, 2006 was \$195,000 and has total accreted interest of \$420,086. Principal paid on the current interest bonds during fiscal year 2006 was \$270,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2019.

- C.** Excluding amounts defeased during 2003, \$2,780,000 remained an obligation of the District. This amount is comprised of both current interest bonds, par value \$980,000, and capital appreciation bonds, par value \$1,800,000. Interest accrues at rates ranging from 3.9% to 6.1%. The capital appreciation bonds have annual mandatory sinking fund redemption requirements and mature annually beginning December 1, 2005 through December 1, 2009 at a redemption price equal to 100% of the principal, plus accrued interest to date. The present value (as of issue date) reported at June 30, 2006 was \$366,441, total accreted interest of \$822,256 which is reported separately. The current interest bonds mature annually each December 1, through 2005, with interest payments due on June 1 and December 1 of each year. The current interest bonds were retired in fiscal year 2005.
- D.** Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2006, are as follows:

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 280,000	\$ 151,930	\$ 431,930	\$ 101,358	\$ 258,642	\$ 360,000
2008	-	146,540	146,540	159,457	490,543	650,000
2009	-	146,540	146,540	138,463	511,537	650,000
2010	-	146,540	146,540	127,163	522,837	650,000
2011	-	146,540	146,540	35,000	255,000	290,000
2012 - 2016	1,580,000	562,776	2,142,776	-	-	-
2017 - 2020	1,550,000	154,976	1,704,976	-	-	-
Total	<u>\$ 3,410,000</u>	<u>\$ 1,455,842</u>	<u>\$ 4,865,842</u>	<u>\$ 561,441</u>	<u>\$ 2,038,559</u>	<u>\$ 2,600,000</u>

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$13,113,719 (including available funds of \$1,417,115) and an unvoted debt margin of \$174,089.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty-two days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, up to a maximum accumulation of seventy-two days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Health Insurance

The District is a member of the Stark County Schools Council, a public entity risk pool that currently operates as a common risk management and health insurance program for member school districts. The District pays a monthly premium to the pool for health, prescription drug, dental, and vision coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the pool has purchased stop-loss coverage from private insurance carriers to cover claims in excess of \$200,000 for any employee in a year or to cover aggregate claims in excess of 120% of the prior year's total claims. Individual coverage per person cannot exceed \$1,000,000 in claims during his or her lifetime.

NOTE 12 - RISK MANAGEMENT

A. Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2006, the District purchased from various insurance carriers general liability insurance, which carried a \$2 million per occurrence/\$4 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and are traditionally funded.

Settled claims have not exceeded any of the above coverages in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2005.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

B. OASBO Workers' Compensation Group Rating Plan

The District is a member of the OASBO Workers' Compensation Group Rating Plan, a public entity risk pool. The plan was created by the Ohio Association of School Business of Officials as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school districts to join together in order to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 11.70 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$184,902, \$181,497, and \$139,934; 45.35 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$101,051 represents the amount of unpaid contribution at June 30, 2006.

B. State Teachers Retirement System

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 13 - PENSION PLANS - (Continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$815,628, \$761,531 and \$720,467; 82.89 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$139,587 represents the amount of unpaid contribution at June 30, 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,863 made by the District and \$20,729 made by the plan members.

C. Social Security System

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$62,741 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$85,792 to fund health care benefits, including the surcharge.

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

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (884,642)
Net adjustment for revenue accruals	(16,266)
Net adjustment for expenditure accruals	(242,365)
Net adjustment for other sources/uses	(306,378)
Adjustment for encumbrances	<u>468,269</u>
GAAP basis	<u>\$ (981,382)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to any legal proceedings.

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

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

NOTE 17 - STATUTORY RESERVES

The District is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for BWC refunds. At June 30, 2006, the unspent portions of Bureau of Workers' Compensation refunds continue to be a set-aside for budget stabilization.

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2005	\$ (414,259)	\$ 55,999	\$ 38,225
Current year set-aside requirement	239,295	239,295	-
Qualifying disbursements	<u>(256,301)</u>	<u>(288,397)</u>	<u>-</u>
Total	<u>\$ (431,265)</u>	<u>\$ 6,897</u>	<u>\$ 38,225</u>
Balance carried forward to FY 2007	<u>\$ (431,265)</u>	<u>\$ 6,897</u>	<u>\$ 38,225</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

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

Amount restricted for capital acquisition	\$ 6,897
Amount restricted for BWC refunds	<u>38,225</u>
Total restricted assets	<u>\$ 45,122</u>

SUPPLEMENTAL DATA

**BLACK RIVER LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
<i>Nutrition Cluster:</i>						
(A), (C) Food Donation	10.550	N/A	\$ -	\$ 17,489	\$ -	\$ 17,489
(A), (D) School Breakfast Program	10.553	048462-05PU-2005	2,412		2,412	
(A), (D) School Breakfast Program	10.553	048462-05PU-2006	24,582		24,582	
(A), (D) National School Lunch Program	10.555	048462-LLP4-2004	14,320		14,320	
(A), (D) National School Lunch Program	10.555	048462-LLP4-2005	93,413		93,413	
(A), (D) National School Lunch Program	10.555	048462-LLP4-2006	48,501		48,501	
(D) Team Nutrient Grant	10.574	048462-TWNT-2006	490		490	
Total U.S. Department of Agriculture and Nutrition Center			<u>183,718</u>	<u>17,489</u>	<u>183,718</u>	<u>17,489</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
<i>Special Education Cluster:</i>						
(B) Special Education Grants to States	84.027	048462-6BSF-2005	172,919		6,304	
(B) Special Education Grants to States	84.027	048462-6BSF-2006	321,505		369,628	
Total Special Education- Grants to States			<u>494,424</u>		<u>375,932</u>	
(B) Special Education- Preschool Grants	84.173	048462-PGSI-2005	1,587		845	
(B) Special Education- Preschool Grants	84.173	048462-PGSI-2006	4,772		5,656	
Total Special Education - Preschool Grants			<u>6,359</u>		<u>6,501</u>	
Total Special Education Cluster			<u>500,783</u>		<u>382,433</u>	
Title I- Grants to Local Education Agencies	84.010	048462-C1S1-2005	124,253		42,455	
Title I- Grants to Local Education Agencies	84.010	048462-C1S1-2006	308,882		257,640	
Total Title I- Grants to Local Education Agencies			<u>433,135</u>		<u>300,095</u>	
Safe and Drug Free Schools and Communities- State Grants	84.186	048462-DRS1-2005	3,535		1,252	
Safe and Drug Free Schools and Communities- State Grants	84.186	048462-DRS1-2006	12,580		16,351	
Total Safe and Drug Free Schools and Communities-State Grants			<u>16,115</u>		<u>17,603</u>	
State Grants for Innovative Programs	84.298	048462-C2S1-2005	3,294		3,971	
State Grants for Innovative Programs	84.298	048462-C2S1-2006	5,393		2,973	
Total State Grants for Innovative Programs			<u>8,687</u>		<u>6,944</u>	
Education Technology State Grant	84.318	048462-TJS1-2005	534		698	
Education Technology State Grant	84.318	048462-TJS1-2006	5,523		3,201	
Total Education Technology State Grants			<u>6,057</u>		<u>3,899</u>	
Improving Teacher Quality State Grants	84.367	048462-TRS1-2005	29,130		48,255	
Improving Teacher Quality State Grants	84.367	048462-TRS1-2006	132,288		106,659	
Total Improving Teacher Quality State Grants			<u>161,418</u>		<u>154,914</u>	
Total U. S. Department of Education			<u>1,126,195</u>		<u>865,888</u>	
Total Federal Financial Assistance			<u>\$ 1,309,913</u>	<u>\$ 17,489</u>	<u>\$ 1,049,606</u>	<u>\$ 17,489</u>

- (A) Included as part of the "Nutrition Grant Cluster" in determining major programs
- (B) Included as part of "Special Education Cluster" in determining major programs.
- (C) The Food Donation program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in first-out basis
- (E) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Board of Education
Black River Local School District
257 County Road 40
Sullivan, Ohio 44880

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Black River Local School District, Medina County (the "District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Board of Education
Black River Local School District

Compliance and Other Matters

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

This report is intended solely for the information and use of the management and Board of Education of the Black River Local School District, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Julian & Grube, Inc.
December 21, 2006



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Federal Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Board of Education
Black River Local School District
257 County Road 40
Sullivan, Ohio 44880

Compliance

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

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

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

Board of Education
Black River Local School District

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management, the Board of Education of Black River Local School District, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
December 21, 2006

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

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 non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for its major federal program?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for its major federal program?	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 Program:	Special Education Cluster: Special Education Grants to States (CFDA #84.027); Special Education - Preschool Grants (CFDA #84.173)
<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?	Yes

**BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

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

None

3. FINDINGS AND QUESTIONED COSTS AND FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

BLACK RIVER LOCAL SCHOOL DISTRICT
MEDINA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 13, 2007