

**MAD RIVER LOCAL SCHOOL DISTRICT**

**Basic Financial Statements**

**June 30, 2006**

**with**

**Independent Auditors' Report**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Mad River Local School District  
801 Harshman Road  
Riverside, Ohio 45431

We have reviewed the *Independent Auditor's Report* of the Mad River Local School District, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., 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 Mad River Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 1, 2007

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# MAD RIVER LOCAL SCHOOL DISTRICT

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**Clark, Schaefer, Hackett & Co.**  
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BUSINESS CONSULTANTS  
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Independent Auditor's Report

Board of Education  
Mad River Local School District  
801 Old Harshman Road  
Dayton, Ohio 45431

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2007, 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.

The management's discussion and analysis on pages 3 through 10 and the budgetary comparison schedule and notes on pages 41 through 43 are 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 the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is also not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards 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.

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
August 10, 2007

**MAD RIVER LOCAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)**

The discussion and analysis of Mad River Local School District's 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 notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- Net assets of governmental activities increased \$1,106,768 which represents a 1% increase from 2005.
- General revenues accounted for \$33,273,998 in revenue or 83% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,937,832 or 17% of total revenues of \$40,211,830.
- The District had \$39,105,062 in expenses related to governmental activities; \$6,937,832 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$33,273,998 were adequate to provide for these programs.

**OVERVIEW OF THE 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 *Statements 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. The General and Classroom Facilities Funds are the major funds of the District.



## Government-wide Financial Statements

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 questions, “How did we do financially during 2006?” The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report 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 has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. 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 Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District’s programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

## Fund Financial Statements

The analysis of the District’s major fund is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District’s major fund. 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.

**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* that can readily be converted to cash. The governmental fund 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 financial statements.

**Fiduciary Funds** Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs.

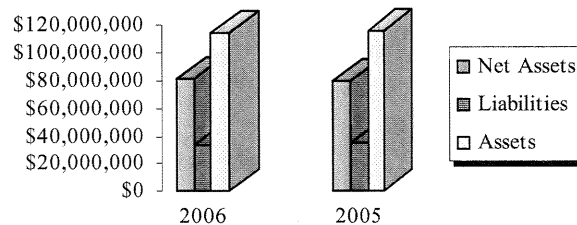
## The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2006 compared to 2005:

Table 1  
Net Assets

	Governmental Activities	
	2006	2005 Restated
<b>Assets</b>		
Current Assets	\$30,197,523	\$37,189,577
Capital Assets	83,922,573	77,629,927
<b>Total Assets</b>	<b>114,120,096</b>	<b>114,819,504</b>
<b>Liabilities</b>		
Long-Term Liabilities	19,553,135	19,758,324
Other Liabilities	13,730,705	15,331,692
<b>Total Liabilities</b>	<b>33,283,840</b>	<b>35,090,016</b>
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Debt	65,969,620	59,127,927
Restricted	7,418,842	13,537,371
Unrestricted	7,447,794	7,064,190
<b>Total Net Assets</b>	<b>\$80,836,256</b>	<b>\$79,729,488</b>



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 \$80,836,256.

At year-end, capital assets represented 74% of total assets. Capital assets include land, buildings and improvements and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2006, was \$65,969,620. 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, \$7,418,842, represents resources that are subject to external restriction on how they must be used. The remaining balance of unrestricted net assets of \$7,447,794 may be used to meet the District's ongoing obligations to the students and creditors. The external restriction will not affect the availability of fund resources for future use.

Current and other assets decreased mainly due to a decrease in Equity in Pooled Cash and Investments which was a result of the District holding a smaller balance of investments compared to the prior year. Capital assets increased due to the completion of the building project in the current fiscal year. Other liabilities decreased mainly due to a decrease in payables the District owes at fiscal year end as compared to the prior year.

Table 2 shows the change in net assets at year end.

Table 2  
Changes in Net Assets

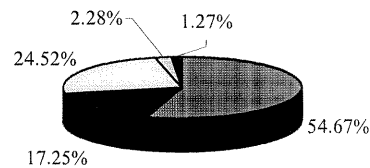
	Governmental Activities	
	2006	2005 Restated
Revenues		
Program Revenues:		
Charges for Services	\$2,056,048	\$1,744,457
Operating Grants	3,998,685	4,126,090
Capital Grants	883,099	4,780,436
General Revenue:		
Property Taxes	9,858,568	8,897,494
Grants and Entitlements	21,984,650	22,163,172
Other	1,430,780	994,580
Total Revenues	<u>40,211,830</u>	<u>42,706,229</u>
Program Expenses:		
Instruction	22,697,830	20,634,253
Support Services:		
Pupil and Instructional Staff	3,874,249	3,497,943
General and School Administrative, Fiscal and Business	3,971,662	3,814,285
Operations and Maintenance	3,481,911	3,101,777
Pupil Transportation	1,191,047	1,092,938
Central	309,796	230,279
Operation of Non-Instructional Services	2,376,910	2,854,722
Extracurricular Activities	493,486	545,161
Interest and Fiscal Charges	708,171	989,335
Total Expenses	<u>39,105,062</u>	<u>36,760,693</u>
Change in Net Assets	1,106,768	5,945,536
Beginning Net Assets	<u>79,729,488</u>	<u>73,783,952</u>
Ending Net Assets	<u>\$80,836,256</u>	<u>\$79,729,488</u>

The District revenues are usually from two sources. Property taxes levied for general, special revenue, debt service and capital project purposes and grants and entitlements comprised 79% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 25% of revenue for governmental activities for the District in fiscal year 2006.

Revenue Sources	2006	Percent of Total
General Grants	\$21,984,650	54.67%
Program Revenues	6,937,832	17.25%
General Tax Revenues	9,858,568	24.52%
Investment Earnings	918,745	2.28%
Other Revenues	512,035	1.27%
	<u>\$40,211,830</u>	<u>100.00%</u>



Instruction comprises 58% of governmental program expenses. Support services expenses were 33% of governmental program expenses. All other expenses including interest expense was 9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Capital grants and contributions decreased from prior years mainly because the District received most of their grant monies for the construction project in 2005 and in 2004. Other revenues increased mainly due to an increase in investment revenue from the prior year. Instructional Expenses increased due to general inflationary costs.

## Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$22,697,830	\$20,634,253	(\$19,251,746)	(\$13,737,147)
Support Services:				
Pupil and Instructional Staff	3,874,249	3,497,943	(3,320,425)	(2,980,647)
General and School Administrative, Fiscal and Business	3,971,662	3,814,285	(3,654,287)	(3,336,167)
Operations and Maintenance	3,481,911	3,101,777	(3,448,393)	(2,957,459)
Pupil Transportation	1,191,047	1,092,938	(1,188,382)	(882,391)
Central	309,796	230,279	(283,383)	(205,833)
Operation of Non-Instructional Services	2,376,910	2,854,722	(78,682)	(660,852)
Extracurricular Activities	493,486	545,161	(233,761)	(359,879)
Interest and Fiscal Charges	708,171	989,335	(708,171)	(989,335)
Total Expenses	<u>\$39,105,062</u>	<u>\$36,760,693</u>	<u>(\$32,167,230)</u>	<u>(\$26,109,710)</u>

## The District's Funds

The District has two major governmental funds: the General Fund and Classroom Facilities Fund. Assets of the general fund comprised \$20,811,672 (69%) and the classroom facilities fund comprised \$3,691,767 (12%) of the total \$30,256,771 governmental funds assets.

**General Fund:** Fund balance at June 30, 2006 was \$8,603,255 an increase in fund balance of \$651,936 from 2005. The primary reason for the increase in fund balance was due to an increase in taxes revenue and investment earnings.

**Classroom Facilities Fund:** Fund balance at June 30, 2006 was \$3,392,873 a decrease of \$5,492,889 from 2005. The decrease in fund balance was mainly due to the District completing their building projects in the current year.

## General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, final budget basis revenue was \$33,005,255, compared to original budget estimates of \$31,075,509. Of the \$1,929,746 difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$7,606,784 above the final budgeted amount.

## **Capital Assets and Debt Administration**

### ***Capital Assets***

At the end of fiscal 2006, the District had \$83,922,573 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005 Restated</u>
Land	\$916,000	\$916,000
Construction in Progress	0	74,613,361
Buildings and Improvements	81,572,895	920,277
Equipment	<u>1,433,678</u>	<u>1,180,288</u>
Total Net Capital Assets	<u>\$83,922,573</u>	<u>\$77,629,926</u>

The increase in capital assets is due to the completion of the District's six new buildings.

See note 6 to the basic financial statements for further details on the District's capital assets.

## **Debt**

At June 30, 2006, the District had \$18,105,476 in bonds and capital leases outstanding, \$895,000 due within one year. Table 5 summarizes bonds outstanding. These bonds and the capital lease will be used for the construction (and renovation) of school buildings.

Table 5  
Outstanding Debt, at Year End

	Governmental Activities	
	2006	2005
Bonds and Leases Payable:		
School Facilities Project Bonds	\$6,935,000	\$16,265,000
Refunding Bonds:		
Current Interest Bonds -		
Classroom Facilities	8,875,000	0
Capital Appreciation Bonds	20,000	0
Interest Accretion	942,533	0
Accrued Premium on Bonds	27,745	0
Deferred Amount on Refunding	(811,802)	0
OASBO Capital Lease	2,117,000	2,237,000
Total Bonds and Leases	<u>\$18,105,476</u>	<u>\$18,502,000</u>

See note 7 to the basic financial statements for further details on the District's long-term obligations.

## **For the Future**

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

## **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue R. Strubing, 801 Harshman Road, Riverside, OH 45431. Or E-mail at [sue.strubing@madriversschools.org](mailto:sue.strubing@madriversschools.org).

Mad River Local School District  
Statement of Net Assets  
June 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$18,669,209
Restricted Cash and Investments	542,752
Receivables:	
Taxes	10,189,593
Accounts	65,612
Intergovernmental	560,002
Deferred Bond Issuance Costs	152,523
Inventory	17,832
Nondepreciable Capital Assets	916,000
Depreciable Capital Assets, Net	<u>83,006,573</u>
 Total Assets	 <u>114,120,096</u>
Liabilities:	
Accounts Payable	471,973
Accrued Wages and Benefits	3,472,349
Retainage Payable	295,576
Accrued Interest Payable	102,847
Unearned Revenue	9,322,787
Claims Payable	65,173
Long-Term Liabilities:	
Due Within One Year	1,320,725
Due In More Than One Year	<u>18,232,410</u>
 Total Liabilities	 <u>33,283,840</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	65,969,620
Restricted for:	
Special Revenue	1,130,666
Debt Service	1,043,316
Capital Projects	4,997,684
Set-Aside	247,176
Unrestricted	<u>7,447,794</u>
 Total Net Assets	 <u>\$80,836,256</u>

See accompanying notes to the Basic Financial Statements.



Mad River Local School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$15,197,859	\$600,298	\$829,420	\$871,010	(\$12,897,131)
Special	4,492,822	82,128	1,016,420	0	(3,394,274)
Vocational	1,876,232	0	46,808	0	(1,829,424)
Other	1,130,917	0	0	0	(1,130,917)
Support Services:					
Pupil	1,794,039	0	130,943	12,089	(1,651,007)
Instructional Staff	2,080,210	0	410,792	0	(1,669,418)
General Administration	106,036	0	0	0	(106,036)
School Administration	2,571,939	138,642	178,633	0	(2,254,664)
Fiscal	1,224,836	0	100	0	(1,224,736)
Business	68,851	0	0	0	(68,851)
Operations and Maintenance	3,481,911	0	33,518	0	(3,448,393)
Pupil Transportation	1,191,047	0	2,665	0	(1,188,382)
Central	309,796	0	26,413	0	(283,383)
Operation of Non-Instructional Services	2,376,910	975,255	1,322,973	0	(78,682)
Extracurricular Activities	493,486	259,725	0	0	(233,761)
Interest and Fiscal Charges	708,171	0	0	0	(708,171)
<b>Total Governmental Activities</b>	<b>39,105,062</b>	<b>2,056,048</b>	<b>3,998,685</b>	<b>883,099</b>	<b>(32,167,230)</b>

General Revenues:

Property Taxes Levied for:	
General Purposes	8,558,965
Special Revenue Purposes	100,562
Debt Service Purposes	1,199,041
Grants and Entitlements not Restricted to Specific Programs	21,984,650
Unrestricted Contributions	15,535
Investment Earnings	918,745
Other Revenues	496,500
<b>Total General Revenues</b>	<b>33,273,998</b>
Change in Net Assets	1,106,768
Net Assets Beginning of Year, Restated	79,729,488
<b>Net Assets End of Year</b>	<b>\$80,836,256</b>

See accompanying notes to the Basic Financial Statements.

Mad River Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$11,463,371	\$3,396,191	\$3,809,647	\$18,669,209
Restricted Cash and Investments	247,176	295,576	0	542,752
<b>Receivables:</b>				
Taxes	8,866,098	0	1,323,495	10,189,593
Accounts	65,312	0	300	65,612
Intergovernmental	0	0	560,002	560,002
Interfund	169,715	0	42,056	211,771
Inventory	0	0	17,832	17,832
<b>Total Assets</b>	<b>20,811,672</b>	<b>3,691,767</b>	<b>5,753,332</b>	<b>30,256,771</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	340,863	3,318	127,792	471,973
Accrued Wages and Benefits	3,124,309	0	348,040	3,472,349
Compensated Absences	256,768	0	0	256,768
Retainage Payable	0	295,576	0	295,576
Interfund Payable	0	0	211,771	211,771
Deferred Revenue	8,421,304	0	1,405,668	9,826,972
Claims Payable	65,173	0	0	65,173
<b>Total Liabilities</b>	<b>12,208,417</b>	<b>298,894</b>	<b>2,093,271</b>	<b>14,600,582</b>
<b>Fund Balances:</b>				
Reserved for Encumbrances	647,700	1,371,504	350,001	2,369,205
Reserved for Inventory	0	0	17,832	17,832
Reserved for Property Tax Advances	444,794	0	74,233	519,027
Reserved for Set-Aside	247,176	0	0	247,176
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	7,263,585	0	0	7,263,585
Special Revenue Funds	0	0	873,331	873,331
Debt Service Funds	0	0	987,113	987,113
Capital Projects Funds	0	2,021,369	1,357,551	3,378,920
<b>Total Fund Balances</b>	<b>8,603,255</b>	<b>3,392,873</b>	<b>3,660,061</b>	<b>15,656,189</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$20,811,672</b>	<b>\$3,691,767</b>	<b>\$5,753,332</b>	<b>\$30,256,771</b>

See accompanying notes to the Basic Financial Statements.

Mad River Local School District  
 Reconciliation of Total Governmental Fund Balance to  
 Net Assets of Governmental Activities  
 June 30, 2006

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Total Governmental Fund Balance		\$15,656,189
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		83,922,573
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	368,372	
Intergovernmental	<u>135,813</u>	
		504,185
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(102,847)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(1,190,891)</u>	
		(1,190,891)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		152,523
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(18,105,476)</u>
Net Assets of Governmental Activities		<u><u>\$80,836,256</u></u>

See accompanying notes to the Basic Financial Statements.

Mad River Local School District  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$8,643,168	\$0	\$1,323,350	\$9,966,518
Tuition and Fees	422,852	0	84,331	507,183
Investment Earnings	817,208	97,077	4,460	918,745
Intergovernmental	22,431,787	789,206	3,614,941	26,835,934
Extracurricular Activities	29,701	0	252,512	282,213
Charges for Services	0	0	975,255	975,255
Other Revenues	626,438	0	122,203	748,641
<b>Total Revenues</b>	<b>32,971,154</b>	<b>886,283</b>	<b>6,377,052</b>	<b>40,234,489</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	13,773,330	0	379,360	14,152,690
Special	3,669,599	0	604,903	4,274,502
Vocational	1,501,064	0	50,185	1,551,249
Other	1,130,917	0	0	1,130,917
<b>Support Services:</b>				
Pupil	1,373,063	0	377,516	1,750,579
Instructional Staff	1,693,185	0	388,196	2,081,381
General Administration	106,036	0	0	106,036
School Administration	2,202,134	0	350,250	2,552,384
Fiscal	1,190,936	0	168,978	1,359,914
Business	32,784	0	35,916	68,700
Operations and Maintenance	3,265,660	0	331,121	3,596,781
Pupil Transportation	1,184,676	0	20,290	1,204,966
Central	254,825	0	18,660	273,485
Operation of Non-Instructional Services	302,103	0	2,329,921	2,632,024
Extracurricular Activities	415,739	0	77,747	493,486
Capital Outlay	0	6,388,576	1,110,895	7,499,471
<b>Debt Service:</b>				
Principal Retirement	120,000	0	435,000	555,000
Interest and Fiscal Charges	99,167	0	617,812	716,979
<b>Total Expenditures</b>	<b>32,315,218</b>	<b>6,388,576</b>	<b>7,296,750</b>	<b>46,000,544</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>655,936</b>	<b>(5,502,293)</b>	<b>(919,698)</b>	<b>(5,766,055)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	0	9,404	30,325	39,729
Refunding Bond Premium	0	0	964,325	964,325
Payments to Refunding Bond Escrow Agent	0	0	(9,706,802)	(9,706,802)
Issuance of Refunding Bonds	0	0	8,895,000	8,895,000
Transfers In	0	0	4,000	4,000
Transfers (Out)	(4,000)	0	0	(4,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(4,000)</b>	<b>9,404</b>	<b>186,848</b>	<b>192,252</b>
<b>Net Change in Fund Balance</b>	<b>651,936</b>	<b>(5,492,889)</b>	<b>(732,850)</b>	<b>(5,573,803)</b>
<b>Fund Balance Beginning of Year</b>	<b>7,951,319</b>	<b>8,885,762</b>	<b>4,392,911</b>	<b>21,229,992</b>
<b>Fund Balance End of Year</b>	<b>\$8,603,255</b>	<b>\$3,392,873</b>	<b>\$3,660,061</b>	<b>\$15,656,189</b>

See accompanying notes to the Basic Financial Statements.

Mad River Local School District  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2006

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Net Change in Fund Balance - Total Governmental Funds (\$5,573,803)

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

Governmental funds report capital asset additions as expenditures.  
 However, in the statement of activities, the cost of those assets is  
 allocated over their estimated useful lives as depreciation  
 expense. This is the amount of the difference between capital  
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	8,241,317	
Depreciation Expense	<u>(1,948,670)</u>	6,292,647

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

Delinquent Property Taxes	(107,950)	
Intergovernmental	<u>45,561</u>	(62,389)

In governmental funds, proceeds from sale of debt is considered a source of  
 financing, but in the statement of net assets, the debt obligations are reported  
 as a liability. (8,895,000)

In the statement of activities, certain costs and proceeds associated with  
 long-term debt obligations issued during the year are accrued and  
 amortized over the life of the debt obligation. In governmental funds  
 these costs and proceeds are recognized as financing sources and uses.

Bond Issuance Costs	152,523	
Premium on Bonds Issued	(964,325)	
Deferred Charge on Refunding	<u>811,802</u>	0

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

Principal payments	555,000	
Bonds defeased through payment to escrow agent	<u>8,895,000</u>	9,450,000

In the statement of activities interest expense is accrued when incurred,  
 whereas in governmental funds an interest expenditure is reported  
 when due. 14,761

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

Compensated Absences	(113,495)	
Bond Accretion	<u>(5,953)</u>	<u>(119,448)</u>

Change in Net Assets of Governmental Activities \$1,106,768

See accompanying notes to the Basic Financial Statements.

Mad River Local School District  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

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	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$994	\$99,633
Total Assets	994	\$99,633
Liabilities:		
Accounts Payable	0	22,037
Other Liabilities	0	77,596
Total Liabilities	0	\$99,633
Net Assets:		
Held in Trust	994	
Total Net Assets	\$994	

See accompanying notes to the Basic Financial Statements.

Mad River Local School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006

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	Private Purpose Trust
Additions:	
Donations	\$1,003
Other	954
Total Additions	<u>1,957</u>
Deductions:	
Scholarships	<u>2,000</u>
Total Deductions	<u>2,000</u>
Change in Net Assets	(43)
Net Assets Beginning of Year	<u>1,037</u>
Net Assets End of Year	<u><u>\$994</u></u>

See accompanying notes to the Basic Financial Statements.

**MAD RIVER LOCAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2006**

**1. DESCRIPTION OF THE DISTRICT**

The Mad River Local School District (the "District") is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

Management believes the financial statements included in this report represent all of the funds of the District over which the Board of Education has the ability to exercise direct operating control.

**REPORTING ENTITY**

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds and account groups of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District is associated with one organization that is defined as a jointly governed organization. This organization is the Metropolitan Dayton Educational Computer Association. This organization is presented in Note 18.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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



## **MEASUREMENT FOCUS**

### **Government-wide Financial Statements**

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### **Fund Financial Statements**

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

Fiduciary Funds (except agency funds) are reported using the economic resources measurement focus.

## **FUND ACCOUNTING**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

## **Governmental Funds**

Governmental funds focus 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.

Classroom Facilities Fund – This fund accounts for the financial transactions related to the construction of classroom facilities.

## **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. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has a private purpose trust fund which accounts for scholarship programs for students. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

## **BASIS OF ACCOUNTING**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

## 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, included 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. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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 year end: property taxes available for advance, grants and interest.

### 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.

### Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met because such amounts have not yet been earned.

## 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 operating statement as an expense with a like amount reported as donated commodities 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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

## **EQUITY IN POOLED CASH AND INVESTMENTS**

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

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 deposits and repurchase agreements are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (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.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2006 amounted to \$817,208 in the general fund, \$97,077 in the classroom facilities fund, and \$4,460 in other governmental funds.

## **INVENTORY**

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

## **CAPITAL ASSETS**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of twenty-five hundred dollars (\$2,500). 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 are depreciated, except land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	5 - 50 years
Equipment	5 - 20 years

### COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vested payment method. 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 due to the employee at year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds only if they have matured.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	20 days per year	10-20 days for each service year depending on length of service – bonus of maximum 5 days eligible
Maximum Accumulation	Not Applicable	Not Applicable	Not Applicable
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Used prior to termination	Used prior to termination

<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	300 days	300 days	300 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	1/4 paid upon retirement	1/4 paid upon retirement	1/4 paid upon retirement

## **NET ASSETS**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation 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.

## **INTERFUND ACTIVITY**

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

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

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided are not eliminated in the process of consolidation.

## **FUND EQUITY**

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventory, property taxes and set-asides. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

## **ESTIMATES**

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

## **RESTRICTED ASSETS**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other government or imposed by enabling legislation.

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

Restricted assets in the classroom facilities fund represents cash and cash equivalents retained by the District to pay contractors on the completion of their work.

### **3. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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.



## Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, the District's bank balance of \$8,224 was not exposed to custodial risk because it was covered by federal depository insurance with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

## Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Federal Home Loan Bank	\$2,991,276	1.20
Federal Home Loan Mortgage	5,911,731	0.32
Federal National Mortgage Association	3,494,256	1.06
Negotiable CD's	493,000	1.34
STAR Ohio	4,161,141	0.00
Money Market Funds	293,895	0.00
Repurchase Agreement	<u>2,534,000</u>	0.00
Total Fair Value	<u>\$19,879,299</u>	
Portfolio Weighted Average Maturity		0.49

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. Investments in STAROhio were rated AAA by Standards & Poor's. The District's investments in U.S. Agencies and in Money Market Funds were rated AAA by Standard and Poor's and Fitch ratings and Aaa by Moody's Investors Service. Repurchase agreements which are unrated, shall be transacted only through banks located within the State of Ohio with which the Treasurer has signed a master repurchase agreement as required in Ohio Revised Code 135.

Concentration of credit risk – The District’s investment policy allows investments in U.S. Agencies or Instrumentalities. The District has invested more than 27% of the District’s investments in U.S. Agency securities.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

#### **4. PROPERTY TAXES**

Real property taxes collected in 2006 were levied in April on the assessed values as of January 1, 2005, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. A re-evaluation of real property is required to be completed no less than every six years, with a statistical update every third year.

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property is assessed at 25 percent of true value (as defined). Each business was eligible to receive a \$10,000 exemption in assessed value which was reimbursed by the State.

Real property taxes are payable annually or semi-annually. In 2006, if paid annually, payment was due by January 20th. If paid semi-annually, the first payment (at least 1/2 amount billed) was due January 20th with the remainder due on June 20th.

The County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2006 and for which there is an enforceable legal claim. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$444,794 for General Fund and \$74,233 for other Governmental Funds. These amounts are recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2006 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$242,156,480
Public Utility Personal	13,570,116
Tangible Personal Property	<u>11,687,960</u>
Total	<u>\$267,414,556</u>

## 5. RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interfund. 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.

## 6. CAPITAL ASSETS

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

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$916,000	\$0	\$0	\$916,000
Construction in Progress	74,613,361	0	74,613,361	0
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	2,401,340	82,332,000	0	84,733,340
Equipment	<u>3,512,030</u>	<u>522,678</u>	<u>0</u>	<u>4,034,708</u>
Totals at Historical Cost	<u>81,442,731</u>	<u>82,854,678</u>	<u>74,613,361</u>	<u>89,684,048</u>
Less Accumulated Depreciation:				
Buildings and Improvements	1,481,063	1,679,382	0	3,160,445
Equipment	<u>2,331,742</u>	<u>269,288</u>	<u>0</u>	<u>2,601,030</u>
Total Accumulated Depreciation	<u>3,812,805</u>	<u>1,948,670</u>	<u>0</u>	<u>5,761,475</u>
Governmental Activities Capital Assets, Net	<u>\$77,629,926</u>	<u>\$80,906,008</u>	<u>\$74,613,361</u>	<u>\$83,922,573</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$954,049
Special		218,320
Vocational		355,856
Support Services:		
Pupil		118,923
School Administration		67,175
Operations and Maintenance		87,530
Pupil Transportation		113,118
Operation of Non-Instructional Services		33,699
Total Depreciation Expense		<u>\$1,948,670</u>

## 7. LONG-TERM LIABILITIES

	Interest Rate	Beginning Balance	Issued	Retired	Ending Balance	Due In One Year
<b>Governmental Activities:</b>						
General Obligation Bonds:						
Ohio School Facility Project Bond*	5.15%	\$16,265,000	\$0	\$9,330,000	\$6,935,000	\$530,000
Refunding Bonds						
Current Interest Bonds						
Classroom Facilities	3.75-4.25%	0	8,875,000	0	8,875,000	240,000
Capital Appreciation Bonds	4.08-4.13%	0	20,000	0	20,000	0
Interest Accretion		0	942,533	0	942,533	0
Accrued Premium on Bonds 2006		0	964,325	936,580	27,745	0
Deferred Amount on Refunding		0	(811,802)	0	(811,802)	0
Total General Obligation Bonds		16,265,000	9,990,056	10,266,580	16,800,278	770,000
Capital Lease	4.47%	2,237,000	0	120,000	2,117,000	125,000
Total Long Term Debt		18,502,000	9,990,056	10,386,580	18,105,476	895,000
Compensated Absences		1,256,324	570,372	379,037	1,447,659	425,725
Total Governmental Activities		<u>\$19,758,324</u>	<u>\$10,560,428</u>	<u>\$10,765,617</u>	<u>\$19,553,135</u>	<u>\$1,320,725</u>

\* Bonds were partially refunded during the fiscal year. The refunded amount was \$8,895,000, \$435,000 was the principal payment.

General obligation bonds will be paid from the debt service fund. Capital lease will be paid out of the general fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$770,000	\$673,221	\$1,443,221	\$0	\$0	\$0
2008	685,000	648,357	1,333,357	0	0	0
2009	720,000	622,669	1,342,669	0	0	0
2010	840,000	594,385	1,434,385	0	0	0
2011	885,000	559,952	1,444,952	0	0	0
2012-2016	4,280,000	2,135,960	6,415,960	10,000	710,000	720,000
2017-2021	3,305,000	1,314,065	4,619,065	10,000	715,000	725,000
2022-2025	4,325,000	380,083	4,705,083	0	0	0
Total	<u>\$15,810,000</u>	<u>\$6,928,692</u>	<u>\$22,738,692</u>	<u>\$20,000</u>	<u>\$1,425,000</u>	<u>\$1,445,000</u>

## 8. ADVANCED REFUNDING

On March 23, 2006, the District issued \$8,895,000 in General Obligation bonds with an average interest rate of 4.00%, which was used to advance refund \$8,895,000 of outstanding 2002 Series bonds with an average interest rate of 5.15%. In addition to the bond proceeds, the District received \$964,325 in premiums. The District purchased \$9,706,802 in U.S. Government Securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series Bonds. As a result, \$8,895,000 of the 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets.

The District advance refunded the 2002 Series bonds to reduce its total debt service payments by \$706,401 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$425,553.

## 9. CAPITAL LEASES – LESSEE DISCLOSURE

The capital lease proceeds were recorded in the Building Fund relates to building renovations in the District. The District is leasing the project from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority assigned National City Bank as trustee. National City Bank deposited \$2,335,000 in the District's name with a fiscal agent for the construction of the project. Amounts will be paid to contractors by the District as the work progresses. The District will then submit invoices to the agent for reimbursement. The District made an interest payment to National City Bank. The lease is renewable annually and expires in 2019. The intention of the District is to renew the lease annually.

At fiscal year-end, project construction was complete. The original amount of \$2,335,000 was capitalized as a building and improvement addition in 2006. The District made \$120,000 in principal payments for fiscal year 2006. The principal amount owed on the lease at year end is \$2,117,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the loan, locking in the rate at 4.47% plus an annual administrative fee. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006.

Fiscal Year <u>Ending June 30,</u>	Long-Term <u>Debt</u>
2007	\$216,107
2008	216,442
2009	215,531
2010	215,378
2011	214,959
2012-2016	1,068,555
2017-2019	<u>635,582</u>
Total Minimum Lease Payments	2,782,554
Less: Amount Representing Interest (4.47%)	(641,636)
Less: Additional Program Cost Component	<u>(23,918)</u>
Present Value of Minimum Lease Payments	<u>\$2,117,000</u>

## 10. PENSION PLANS

### 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 43215-3476, or by calling (800) 878-5823 or by visiting the SERS website at [ohsers.org](http://ohsers.org).

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$739,032, \$698,520 and \$660,672, respectively; 48% has been contributed for fiscal year 2006 and 100% for fiscal year 2005 and 2004.

## STATE TEACHERS RETIREMENT SYSTEM

The School District participates in 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090 or by visiting the STRS website at [strsoh.org](http://strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and 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 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% of their annual covered salaries. The School District was required to contribute 14%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,294,628, \$2,171,760 and \$2,076,048, respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal year 2005 and 2004.

## 11. POST EMPLOYMENT 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 included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$163,902 for the fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (latest information available), the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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. For the District, this amount equaled \$180,535 for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.



## 12. CONTINGENT LIABILITIES

### 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2006.

### LITIGATION

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

## 13. RISK MANAGEMENT

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% co-insured with \$1,000 deductible.

Dental coverage is offered to employees through a self insurance program. Changes in claims activity for the current and prior fiscal years are as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2006	\$65,524	\$297,244	\$297,595	\$65,173
2005	55,584	302,373	292,433	65,524
2004	46,189	248,005	238,610	55,584

There were no significant reductions in insurance coverage from coverage in the prior year.

Settlements have not exceeded insurance coverage in any of the last three fiscal years.

## 14. FUND BALANCE RESERVES FOR SET-ASIDES

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

For fiscal year ended June 30, 2006, the District was no longer required to set aside additional funds in the budget reserve set-aside.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	(\$527,461)	\$ 0	\$247,176
Current Year Set-aside Requirement	533,286	533,286	0
Qualified Disbursements	(980,536)	0	0
Current Year Offsets	<u>0</u>	<u>(16,334,263)</u>	<u>0</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$247,176</u>
Restricted Cash as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$247,176</u>
Carryforward for FY 2007	<u>(\$974,711)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Offset credits for capital activity during the year exceeded the amount required for the set-aside, resulting in offset credits available for carryover to offset capital reserve requirements of future years. Qualifying disbursements and carryover from prior years for textbooks also exceeded the required set-aside amount, resulting in carryover of \$974,711 to offset textbook requirements in future years.

## 15. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2006, consisted of the following interfund receivables, interfund payables:

	Interfund		Transfers	
	<u>Receivable</u>	<u>Payable</u>	<u>In</u>	<u>Out</u>
General Fund	\$218,595	\$48,880	\$0	\$4,000
Other Governmental Funds	<u>42,056</u>	<u>211,771</u>	<u>4,000</u>	<u>0</u>
Total All Funds	<u>\$260,651</u>	<u>\$260,651</u>	<u>\$4,000</u>	<u>\$4,000</u>

Interfund balance/transfers are used to 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 unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed. Interfund transfers are eliminated on the statement of activities.

## 16. ACCOUNTABILITY

The following individual funds had a deficit balance at year end:

<u>Fund</u>	
Special Revenue Funds:	
Local Grants	\$29,623
Special Education	38,396
Drug Free Schools	251

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

## 17. CHANGE IN ACCOUNTING PRINCIPLE/PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries"; GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

A prior period adjustment was required to restate capital assets at June 30, 2005 due to an appraisal of the capital assets detail. This restatement had the following effect on net assets at June 30, 2005:

	Governmental
	<u>Activities</u>
Net assets as previously reported, June 30, 2005	\$85,501,036
Restatement for capital assets	<u>(5,771,548)</u>
Net assets restated, June 30, 2005	<u>\$79,729,488</u>

## 18. JOINTLY GOVERNED ORGANIZATIONS

### **Metropolitan Dayton Educational Computer Association**

The Metropolitan Dayton Educational Computer Association (MDECA) is a jointly governed organization consisting of Dayton area school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. MDECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

## 19. INSURANCE PURCHASING POOLS

### *Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan*

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

### *Southwestern Ohio Educational Purchasing Council Employee Benefit Plan Trust*

The School District also participates in the EPC Benefit Plan Trust (the Plan), a group purchasing pool consisting of public school districts who are members of the Southwestern Ohio Educational Purchasing Council (SOEPC). The purpose of a group purchasing pool is for members to pool funds or resources to purchase group insurance products to provide health benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem Blue Cross Blue Shield or United Healthcare. Districts may also contribute monthly to the Trust fund for dental benefits provided through a self-funded dental plan administered by CoreSource. The District did not participate in the dental program. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating EPC member districts. The District paid \$2,763,172 for medical benefits to the Plan during the year.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

Mad River Local School District  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>Revenues:</b>				
Taxes	\$8,214,315	\$8,734,199	\$8,734,199	\$0
Tuition and Fees	360,174	382,969	382,969	0
Investment Earnings	768,565	782,167	817,208	35,041
Intergovernmental	21,096,583	22,431,787	22,431,787	0
Extracurricular Activities	27,933	29,686	29,701	15
Other Revenues	607,939	644,447	646,416	1,969
<b>Total Revenues</b>	<b>31,075,509</b>	<b>33,005,255</b>	<b>33,042,280</b>	<b>37,025</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	16,736,329	21,297,128	14,066,786	7,230,342
Special	4,438,396	3,744,182	3,730,446	13,736
Vocational	2,028,287	1,732,663	1,704,763	27,900
Other	1,434,257	1,219,711	1,205,485	14,226
<b>Support Services:</b>				
Pupil	1,733,662	1,472,081	1,457,133	14,948
Instructional Staff	2,300,327	1,978,472	1,933,411	45,061
General Administration	179,805	152,654	151,125	1,529
School Administration	2,745,346	2,400,046	2,307,447	92,599
Fiscal	1,466,728	1,259,285	1,232,776	26,509
Business	38,869	33,378	32,669	709
Operations and Maintenance	4,188,728	3,560,023	3,520,601	39,422
Pupil Transportation	1,461,695	1,258,384	1,228,546	29,838
Central	313,570	268,851	263,554	5,297
Operation of Non-Instructional Services	359,478	327,023	302,139	24,884
Extracurricular Activities	503,277	424,896	423,001	1,895
Capital Outlay	260,760	219,200	219,167	33
<b>Total Expenditures</b>	<b>40,189,514</b>	<b>41,347,977</b>	<b>33,779,049</b>	<b>7,568,928</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(9,114,005)</b>	<b>(8,342,722)</b>	<b>(736,769)</b>	<b>7,605,953</b>
<b>Other financing sources (uses):</b>				
Proceeds from Sale of Capital Assets	43,933	46,713	46,713	0
Advances In	996,825	1,059,914	1,059,914	0
Advances (Out)	(124,595)	(105,552)	(104,721)	831
Transfers (Out)	(4,759)	(4,000)	(4,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>911,404</b>	<b>997,075</b>	<b>997,906</b>	<b>831</b>
<b>Net Change in Fund Balance</b>	<b>(8,202,601)</b>	<b>(7,345,647)</b>	<b>261,137</b>	<b>7,606,784</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>10,446,127</b>	<b>10,446,127</b>	<b>10,446,127</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$2,243,526</b>	<b>\$3,100,480</b>	<b>\$10,707,264</b>	<b>\$7,606,784</b>

See accompanying notes to the required supplementary information.

**MAD RIVER LOCAL SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended June 30, 2006**

**1. BUDGETARY PROCESS**

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2006.

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

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$651,936
Net Adjustment for Revenue Accruals	1,177,753
Net Adjustment for Expenditure Accruals	(579,989)
Encumbrances	<u>(988,563)</u>
 Budget Basis	 <u>\$261,137</u>



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

<b>Federal Agency/ Pass Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>U.S. Department of Agriculture:</b>				
<i>Passed through Ohio Department of Education:</i>				
Food Donations (1)	10.550	NN-N1	\$ 45,469	\$ 45,469
<i>Nutrition Cluster:</i>				
National School Breakfast Program	10.553	05-PU	131,657	131,657
National School Lunch Program	10.555	LL-P4	604,009	586,588
National Summer Lunch Program	10.559	24-PU	55,587	45,119
<i>Total Nutrition Cluster</i>			<u>791,253</u>	<u>763,364</u>
<b>Total US Department of Agriculture</b>			<b><u>836,722</u></b>	<b><u>808,833</u></b>
<b>U.S. Department of Education:</b>				
Impact Aid Grant	84.041	(2)	1,721,826	1,721,826
<i>Passed through Ohio Department of Education:</i>				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	6B-SF	748,905	752,466
Special Education - Preschool Grants	84.173	PG-S1	22,616	21,033
<i>Total Special Education Cluster</i>			<u>771,521</u>	<u>773,499</u>
Title I Grants to Local Education Agencies	84.010	C1-S1	400,574	473,242
Vocational Education Grants	84.048	20-C1	51,425	58,321
Safe and Drug Free Schools and Communities	84.186	DR-S1	10,234	9,848
State Grants for Innovative Programs	84.298	C2-S1	12,603	11,605
Education Technology State Grants	84.318	TJ-S1	8,747	8,787
English Language Acquisition Grants	84.365	IT-S1	3,800	3,138
Improving Teacher Quality State Grants	84.367	TR-S1	131,454	134,495
Hurricane Education Recovery	84.938	HR-01	10,000	-
<b>Total U.S. Department of Education</b>			<b><u>3,122,184</u></b>	<b><u>3,194,761</u></b>
<b>Total Federal Assistance</b>			<b><u>\$ 3,958,906</u></b>	<b><u>\$ 4,003,594</u></b>

(1) - Estimated cash value of food commodities received and used.

(2) - Direct Award Program

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**MAD RIVER LOCAL SCHOOL DISTRICT**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – U.S. DEPARTMENT OF AGRICULTURE PROGRAMS**

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State and Local funds. It is assumed federal monies are expended first. At June 30, 2006, the School District had no significant food commodities in inventory.

**NOTE C – MATCHING REQUIREMENTS**

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



**Clark, Schaefer, Hackett & Co.**  
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BUSINESS CONSULTANTS  
www.cshco.com

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  
Mad River Local School District  
801 Old Harshman Road  
Dayton, Ohio 45431

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mad River Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 10, 2007. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompany schedule of findings and questioned costs as items 2006-001 and 2006-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2006-001 to be a material weakness.

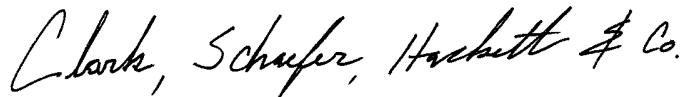
Compliance and Other Matters

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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2006-003 and 2006-004.

We also noted certain matters that we reported to management of the District, in a separate letter dated August 10, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and 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 "Clark, Schaefer, Hackett & Co." The signature is written in black ink and is positioned above the typed name and date.

Springfield, Ohio  
August 10, 2007



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Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133.

Board of Education  
Mad River Local School District  
801 Old Harshman Road  
Dayton, Ohio 45431

Compliance

We have audited the compliance of Mad River Local School 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 each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 Mad River Local School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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 grants 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 the audit committee, management, Board of Education and 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.

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
August 10, 2007

**MAD RIVER LOCAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 § .505**  
**JUNE 30, 2006**

**1. SUMMARY OF AUDITORS' RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Education Agencies – CFDA #84.010 <i>Nutrition Cluster:</i> National School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA #10.555 National Summer Lunch Program – CFDA #10.559
	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding 2006-001: Reporting of Capital Assets**

The School District used an outside appraisal firm to update the capital asset listing for fiscal year 2006. The listing provided by this appraisal firm was used to record the capital assets to the School District's year-end financial statement. During the audit, it was noted this listing did not contain any of the School District vehicles which resulted in an audit adjustment.

The School District has the responsibility to ensure the annual financial statements are accurate and complete. If outside firms are used in the future to compile information which will be included in the financial statements, management should review this information comparing any changes with prior year information to make sure all changes are appropriate.

Management Response:

*We were made aware of this situation and have already made the adjustments necessary to ensure the fiscal year 2007 include all capital assets of the District.*

**Finding 2006-002: Calculation of Liability for Compensated Absences**

In reviewing the School District's calculation of the liability associated with compensated absences it was noted this calculation included employees that were currently eligible to retire. However, the School District made no provision in the calculation for employees who are anticipated to retire which would result in severance payments being made. GASB Statement No. 16 prescribes two different methods for determining the liability associated with compensated absences, the termination payment method and the vesting method.

The School District should review its calculation of the liability associated with compensated absence to ensure it complies with generally accepted accounting principles.

Management Response:

*We were made aware of this situation and have contacted the firm hired to perform the year end GAAP conversion and instructed them to make the necessary changes for fiscal year 2007.*

**Finding 2006-003: Expenditures Exceeding Appropriations**

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriate. During fiscal year 2006 the School District had several funds in which the total disbursements plus encumbrance amounts exceeded the appropriations approved for those funds.

The School District should monitor expenditures and encumbrances amounts throughout the year to ensure approved appropriation amounts are not exceeded. The School District should investigate the possibility of using the budgetary monitoring controls available on its financial system to ensure budgeted levels are not exceeded.



Management Response:

*Compliance with appropriation limits were monitored on a fund type basis in prior years. We will work towards monitoring on individual fund basis in the future. The Treasurer will work with the Board of Education to have necessary appropriation amendments passed throughout the year, rather than just at year end.*

**Finding 2006-004: Appropriations Exceeding Estimated Resources**

Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources. During fiscal year 2006 the School District had several funds in which the total appropriations for these funds exceeded the resources estimated for the year.

The School District should continue to work with the County Auditor's office to ensure amended certificates of estimated resources are obtained prior to enacting appropriation amendments that cause appropriations to exceed the estimated resources at the fund level.

Management Response:

*Appropriations amounts were compared with estimated resources on a fund type basis in prior years. The Treasurer will work towards monitoring compliance on an individual fund basis as future appropriation amendments are presented to the Board of Education in the future.*

<b>3. FINDINGS RELATED TO THE DISTRICT'S FEDERAL AWARDS</b>
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None

**MAD RIVER LOCAL SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS  
JUNE 30, 2006**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected</u></b>	<b><u>If not fully corrected, Explain:</u></b>
2005-001	Expenditures exceeded appropriations in various funds during the year.	No	Repeated in current audit as Finding 2006-003.
2005-002	Appropriations exceeded estimated resources for various funds at the end of the fiscal year.	No	Repeated in current audit as Finding 2006-004.
2005-003	Appropriations exceeded estimated resources for various funds during the fiscal year.	No	Repeated in current audit as Finding 2006-004.



**Mary Taylor, CPA**  
Auditor of State

**MAD RIVER LOCAL SCHOOL DISTRICT**

**MONTGOMERY 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  
OCTOBER 11, 2007**