



Mary Taylor, CPA  
Auditor of State



**TRI-VALLEY LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Tri-Valley Local School District  
Muskingum County  
36 E. Muskingum Avenue  
Dresden, Ohio 43821

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

February 21, 2007

**Tri-Valley Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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

### **Financial Highlights**

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$48,976,711.
- General revenues accounted for \$72,234,621 in revenue or 95 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$3,609,732 or 5 percent of total revenues of \$75,844,353.
- Total assets of governmental activities increased \$48,838,875 primarily due to increased investments from the local share of the classroom facilities project as well as an increase in intergovernmental receivables resulting from the Ohio School Facilities Grant. Capital assets also increased slightly due to increased construction in progress from the project which was offset by annual depreciation expense on depreciable capital assets.
- The School District had \$26,867,642 in expenses related to governmental activities; only \$3,609,732 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$72,234,621 were adequate to provide for these programs.
- The School District has four major funds, the general fund, debt service fund, permanent improvement capital projects fund, and building fund capital projects fund. The general fund had \$21,725,331 in revenues and \$22,401,566 in expenditures. The general fund's balance decreased \$676,235. The debt service fund had \$11,451,790 in revenues and other financing sources and \$11,129,929 in expenditures and other financing uses. The debt service fund's balance increased \$321,861. The permanent improvement fund had \$505,520 in revenues and \$1,015,685 in expenditures and other financing uses. The permanent improvement fund's balance decreased \$510,165. The building fund had \$5,129,757 in revenues and other financing sources, and \$1,630,819 in expenditures. The building fund balance increased \$3,498,938.

### **Using this Annual Financial Report**

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

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

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***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer 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 School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all considered to be Governmental Activities.

Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, debt service fund, permanent improvement fund, and building fund.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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.

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**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

**Table 1**  
**Net Assets**

	<b>Governmental Activities</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Assets</b>			
Current and Other Assets	\$65,467,253	\$17,561,557	\$47,905,696
Capital Assets	26,817,567	25,884,388	933,179
<b>Total Assets</b>	<b>92,284,820</b>	<b>43,445,945</b>	<b>48,838,875</b>
<b>Liabilities</b>			
Long-Term Liabilities	18,865,047	19,101,115	(236,068)
Other Liabilities	8,369,800	8,271,568	98,232
<b>Total Liabilities</b>	<b>27,234,847</b>	<b>27,372,683</b>	<b>(137,836)</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	10,427,930	8,309,213	2,118,717
Restricted	53,090,368	4,616,423	48,473,945
Unrestricted	1,531,675	3,147,626	(1,615,951)
<b>Total Net Assets</b>	<b>\$65,049,973</b>	<b>\$16,073,262</b>	<b>\$48,976,711</b>

Total assets increased \$48,838,875. Current assets increased by \$47,905,696 primarily due to an increase in cash and cash equivalents and investments from the local share of the classroom facilities project as well as an increase in intergovernmental receivables resulting from the Ohio School Facilities Grant. Capital assets also increased \$933,179 due to increased construction in progress from the facilities project which was offset by annual depreciation expense on depreciable capital assets.

Total liabilities decreased \$137,836, due primarily to payments on long-term obligations of the School District.

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Table 2 shows the changes in net assets for the fiscal year 2006 compared to fiscal year 2005.

	<b>Table 2</b>		
	<b>Changes in Net Assets</b>		
	<b>Governmental Activities</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$1,324,238	\$1,255,269	\$68,969
Operating Grants and Contributions	2,264,537	2,263,394	1,143
Capital Grants and Contributions	20,957	36,999	(16,042)
Total Program Revenues	<u>3,609,732</u>	<u>3,555,662</u>	<u>54,070</u>
General Revenues			
Property Taxes	7,612,398	8,189,749	(577,351)
Grants and Entitlements - Classroom Facilities	49,900,148	0	49,900,148
Grants and Entitlements not Restricted to Specific Programs	13,636,383	12,777,123	859,260
Interest	344,618	182,597	162,021
Revenue in Lieu of Taxes	558,494	1,011,970	(453,476)
Others	182,580	151,607	30,973
Total General Revenues	<u>72,234,621</u>	<u>22,313,046</u>	<u>49,921,575</u>
<b>Total Revenues</b>	<u><b>75,844,353</b></u>	<u><b>25,868,708</b></u>	<u><b>49,975,645</b></u>
<b>Program Expenses</b>			
Instruction			
Regular	11,742,315	12,146,703	(404,388)
Special	2,401,384	2,245,179	156,205
Vocational	401,562	397,675	3,887
Support Services			
Pupil	755,751	784,838	(29,087)
Instructional Staff	1,411,282	1,092,449	318,833
Board of Education	1,154,523	635,519	519,004
Administration	2,295,400	2,200,358	95,042
Fiscal	421,674	457,952	(36,278)
Business	0	18,659	(18,659)
Operation and Maintenance of Plant	1,883,552	1,721,932	161,620
Pupil Transportation	1,932,575	1,559,564	373,011
Central	391,827	367,121	24,706
Operation of Non-Instructional Services	31,394	3,112	28,282
Food Service Operations	1,121,492	1,113,772	7,720
Extracurricular Activities	232,933	247,001	(14,068)
Interest and Fiscal Charges	689,978	915,300	(225,322)
<b>Total Expenses</b>	<u><b>26,867,642</b></u>	<u><b>25,907,134</b></u>	<u><b>960,508</b></u>
<b>Increase (Decrease) in Net Assets</b>	48,976,711	(38,426)	49,015,137
Net Assets Beginning of Year	<u>16,073,262</u>	<u>16,111,688</u>	<u>(38,426)</u>
Net Assets End of Year	<u><u>\$65,049,973</u></u>	<u><u>\$16,073,262</u></u>	<u><u>\$48,976,711</u></u>

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In 2006, 10 percent of the School District's revenues were from property taxes, 18 percent were from unrestricted grants and entitlements, and 66 percent were from restricted grants for the classroom facilities project. The most significant change in revenues from 2005 to 2006 was for the classroom facilities project.

Instructional programs comprise approximately 54 percent of total governmental program expenses. Of the instructional expenses, approximately 81 percent is for regular instruction, 17 percent for special instruction, and 2 percent for vocational instruction. Instructional program expenses decreased \$244,296 from the prior fiscal year.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2006 compared to fiscal year 2005. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

**Table 3**  
**Governmental Activities**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Instruction				
Regular	\$11,742,315	\$12,146,703	\$11,346,008	\$11,679,150
Special	2,401,384	2,245,179	1,097,099	724,847
Vocational	401,562	397,675	337,294	334,382
Support Services				
Pupil	755,751	784,838	541,444	784,838
Instructional Staff	1,411,282	1,092,449	1,333,126	1,092,449
Board of Education	1,154,523	635,519	1,154,523	635,519
Administration	2,295,400	2,200,358	2,264,982	2,200,358
Fiscal	421,674	457,952	421,674	457,952
Business	0	18,659	0	18,659
Operation and Maintenance of Plant	1,883,552	1,721,932	1,871,418	1,718,408
Pupil Transportation	1,932,575	1,559,564	1,876,179	1,522,565
Central	391,827	367,121	391,827	367,121
Operation of Non-Instructional Services	31,394	3,112	31,394	3,112
Food Service Operations	1,121,492	1,113,772	(21,068)	48,596
Extracurricular Activities	232,933	247,001	(77,968)	(151,784)
Interest and Fiscal Charges	689,978	915,300	689,978	915,300
<b>Total Expenses</b>	<b>\$26,867,642</b>	<b>\$25,907,134</b>	<b>\$23,257,910</b>	<b>\$22,351,472</b>

The dependence upon tax revenues and state subsidies for governmental activities is apparent as 87 percent of expenses are supported through taxes and other general revenues.

**The School District Funds**

The School District has four major funds, the general fund, debt service fund, permanent improvement capital projects fund, and building fund capital projects fund. The general fund's balance decreased \$676,235. The debt service fund's balance increased \$321,861. The permanent improvement fund's balance decreased \$510,165. The building fund balance increased \$3,498,938, due primarily to the construction project.

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***General Fund Budgeting Highlights***

The School 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 School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and final budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2006, the School District had \$26,817,567 invested in land, construction in progress, land improvements, buildings and improvements, furniture, and equipment and vehicles. See note 9 for more detailed information of the School District's capital assets.

***Debt***

At June 30, 2006, the School District had \$17,590,672 in bonds, loans, and capital leases outstanding.

**Table 4**  
**Outstanding Debt at Year End**  
**Governmental Activities**

	<b>2006</b>	<b>2005</b>
2002 School Improvement Serial, Term Bonds	\$8,233,482	\$17,801,262
2006 Refunding Bonds-Serial, Term, and Capital Appreciation Bonds	9,353,276	0
Energy Conservation Loans	3,287	11,340
Capital Leases	627	45,166
<b><i>Total</i></b>	<b>\$17,590,672</b>	<b>\$17,857,768</b>

During fiscal year 2006, the School District advance-refunded a portion of the 2002 school improvement bonds. See Note 15 for more detailed information on the School District's debt.

***Economic Factors***

In an effort to continue a budgetary practice of revenues equal to or exceeding expenditures, the School District has implemented cost-reduction expenditures of more than \$200,000 for fiscal year 2007. The primary reductions are the elimination of one administrative position as well as a reduction of spending for technology. Additional reductions will be considered for future years if necessary to continue the School District's spending practices. Raising revenues by the means of an operating levy would be considered only when viable reductions have been exhausted.

Phase II of the School District's comprehensive building program is well underway which includes the Project Agreement with the Ohio School Facilities Commission for the Classroom Facilities Assistance Program. The agreement provides for a project budget of over \$68 million, comprised of a state share in excess of \$49 million and the local share in excess of \$19 million. A portion of the local share, \$18,979,064, has already been provided for from Phase I of the School District's overall facilities plan

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that was completed during 2005. That phase was completed from a local bond levy that was approved by voters and issued on March 18, 2002 in the amount of \$18,500,000 and was approved through the Ohio Classroom Facilities Assistance Program as part of the Expedited Local Partnership Program. Although bids have been coming in below building estimates, they are still above original budget estimates. An inflationary reserve established by the School District looks to be adequate for these overages, enabling the Board to proceed without seeking an additional bond issue. The project should be completed for the school year 2008-2009.

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

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact A. Max Maley, Treasurer at Tri-Valley Local School District, 36 E. Muskingum Avenue, Dresden, Ohio, 43821 or e-mail at [mmaley@tvschools.org](mailto:mmaley@tvschools.org).

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**Tri-Valley Local School District**  
*Statement of Net Assets*  
*June 30, 2006*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$8,177,900
Accounts Receivable	159
Investments	2,794,013
Prepaid Items	22,459
Materials and Supplies Inventory	102,948
Property Taxes Receivable	7,879,724
Revenue in Lieu of Taxes Receivable	745,399
Intergovernmental Receivable	45,515,998
Deferred Charges	228,653
Non-Depreciable Capital Assets	2,647,760
Depreciable Capital Assets, Net	<u>24,169,807</u>
<i>Total Assets</i>	<u>92,284,820</u>
<b>Liabilities</b>	
Accounts Payable	79,066
Accrued Wages and Benefits Payable	2,407,145
Intergovernmental Payable	677,527
Accrued Interest Payable	34,741
Matured Severance Payable	94,365
Claims Payable	393,055
Deferred Revenue	4,683,901
Long-Term Liabilities:	
Due Within One Year	685,293
Due In More Than One Year	<u>18,179,754</u>
<i>Total Liabilities</i>	<u>27,234,847</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	10,427,930
Restricted for:	
Debt Service	362,559
Capital Outlay	51,737,934
State Programs	64,851
Federal Programs	90,413
Other Purposes	834,611
Unrestricted	<u>1,531,675</u>
<i>Total Net Assets</i>	<u><u>\$65,049,973</u></u>

See accompanying notes to the basic financial statements

**Tri-Valley 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
<b>Governmental Activities</b>					
Instruction:					
Regular	\$11,742,315	\$310,269	\$86,038	\$0	(\$11,346,008)
Special	2,401,384	0	1,304,285	0	(1,097,099)
Vocational	401,562	0	64,268	0	(337,294)
Support Services:					
Pupil	755,751	0	214,307	0	(541,444)
Instructional Staff	1,411,282	0	78,156	0	(1,333,126)
Board of Education	1,154,523	0	0	0	(1,154,523)
Administration	2,295,400	0	30,418	0	(2,264,982)
Fiscal	421,674	0	0	0	(421,674)
Operation and Maintenance of Plant	1,883,552	5,297	6,837	0	(1,871,418)
Pupil Transportation	1,932,575	0	35,439	20,957	(1,876,179)
Central	391,827	0	0	0	(391,827)
Operation of Non-Instructional Services	31,394	0	0	0	(31,394)
Food Service Operations	1,121,492	697,771	444,789	0	21,068
Extracurricular Activities	232,933	310,901	0	0	77,968
Interest and Fiscal Charges	689,978	0	0	0	(689,978)
<i>Total Governmental Activities</i>	<u>\$26,867,642</u>	<u>\$1,324,238</u>	<u>\$2,264,537</u>	<u>\$20,957</u>	<u>(23,257,910)</u>

**General Revenues**

Property Taxes Levied for General Purposes	6,233,253
Property Taxes Levied for Debt Service	1,243,328
Property Taxes Levied for Classroom Facilities Maintenance	135,817
Grants and Entitlements-Classroom Facilities	49,900,148
Grants and Entitlements not Restricted to Specific Programs	13,636,383
Investment Earnings	344,618
Revenue in Lieu of Taxes	558,494
Miscellaneous	182,580
<i>Total General Revenues</i>	<u>72,234,621</u>
Change in Net Assets	48,976,711
<i>Net Assets Beginning of Year</i>	<u>16,073,262</u>
<i>Net Assets End of Year</i>	<u>\$65,049,973</u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Balance Sheet*  
**Governmental Funds**  
*June 30, 2006*

	General	Debt Service	Permanent Improvement	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$2,085,332	\$822,821	\$2,022,125	\$870,134	\$1,061,057	\$6,861,469
Investments	0	0	0	2,794,013	0	2,794,013
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	76,359	0	0	0	0	76,359
Receivables:						
Property Taxes	6,448,477	1,293,614	0	0	137,633	7,879,724
Accounts	141	0	0	0	18	159
Intergovernmental	0	0	0	45,355,163	160,835	45,515,998
Revenue in Lieu of Taxes	41,024	6,874	696,744	0	757	745,399
Prepaid Items	22,459	0	0	0	0	22,459
Materials and Supplies Inventory	88,333	0	0	0	14,615	102,948
<i>Total Assets</i>	<u>\$8,762,125</u>	<u>\$2,123,309</u>	<u>\$2,718,869</u>	<u>\$49,019,310</u>	<u>\$1,374,915</u>	<u>\$63,998,528</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$60,212	\$0	\$0	\$482	\$18,372	\$79,066
Accrued Wages and Benefits	2,280,410	0	0	0	126,735	2,407,145
Intergovernmental Payable	624,238	0	0	0	53,289	677,527
Matured Severance Payable	94,365	0	0	0	0	94,365
Deferred Revenue	4,142,744	813,107	464,496	45,355,163	101,788	50,877,298
<i>Total Liabilities</i>	<u>7,201,969</u>	<u>813,107</u>	<u>464,496</u>	<u>45,355,645</u>	<u>300,184</u>	<u>54,135,401</u>
<b>Fund Balances (Deficit)</b>						
Reserved for Encumbrances	408,465	0	10,274	257,722	75,165	751,626
Reserved for Property Taxes	2,305,733	480,507	0	0	50,988	2,837,228
Reserved for Budget Stabilization	76,359	0	0	0	0	76,359
Unreserved, Undesignated, Reported in:						
General Fund	(1,230,401)	0	0	0	0	(1,230,401)
Special Revenue Funds	0	0	0	0	948,341	948,341
Debt Service Funds	0	829,695	0	0	0	829,695
Capital Projects Funds	0	0	2,244,099	3,405,943	237	5,650,279
<i>Total Fund Balances</i>	<u>1,560,156</u>	<u>1,310,202</u>	<u>2,254,373</u>	<u>3,663,665</u>	<u>1,074,731</u>	<u>9,863,127</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,762,125</u>	<u>\$2,123,309</u>	<u>\$2,718,869</u>	<u>\$49,019,310</u>	<u>\$1,374,915</u>	<u>\$63,998,528</u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006*

**Total Governmental Fund Balances** \$9,863,127

*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. 26,817,567

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds:

Property Taxes	358,595
Revenue in Lieu of Taxes	464,496
Intergovernmental	<u>45,370,306</u>

Total 46,193,397

Unamortized issuance costs represent deferred charges which  
do not provide current financial resources and, therefore, are  
not reported in the funds. 228,653

An internal service fund is used by management to charge the  
costs of insurance to individual funds. The assets and  
liabilities of the internal service fund are included in  
governmental activities in the statement of net assets. 847,017

Long-term liabilities, are not due and payable in the current period  
and therefore are not reported in the funds:

General Obligation Bonds - Capital Appreciation Bonds	429,993
General Obligation Bonds - Serial/Term	16,875,000
Premium	972,382
Difference on Refunding	(632,855)
Discount	(57,762)
Compensated Absences	1,274,375
Accrued Interest Payable	34,741
Energy Conservation Loan	3,287
Capital Leases	<u>627</u>

Total (18,899,788)

*Net Assets of Governmental Activities* \$65,049,973

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Debt Service	Permanent Improvement	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$6,549,322	\$1,282,613	\$0	\$0	\$136,666	\$7,968,601
Intergovernmental	14,259,839	121,578	0	4,544,985	1,563,788	20,490,190
Interest	317,532	0	0	18,795	8,291	344,618
Tuition and Fees	310,251	0	0	0	0	310,251
Extracurricular Activities	75,989	0	0	0	234,912	310,901
Rent	5,297	0	0	0	0	5,297
Revenue in Lieu of Taxes	79,201	13,748	505,520	0	1,514	599,983
Charges for Services	0	0	0	0	697,789	697,789
Miscellaneous	127,900	0	0	0	54,680	182,580
<i>Total Revenues</i>	<u>21,725,331</u>	<u>1,417,939</u>	<u>505,520</u>	<u>4,563,780</u>	<u>2,697,640</u>	<u>30,910,210</u>
<b>Expenditures</b>						
Current:						
Instruction:						
Regular	10,795,372	0	141,268	0	155,296	11,091,936
Special	1,559,352	0	0	0	693,298	2,252,650
Vocational	377,568	0	0	0	0	377,568
Support Services:						
Pupil	530,560	0	0	0	217,139	747,699
Instructional Staff	1,197,582	0	0	0	87,595	1,285,177
Board of Education	1,119,687	25,526	0	0	8,322	1,153,535
Administration	2,191,641	0	0	0	76,892	2,268,533
Fiscal	446,023	0	0	0	0	446,023
Operation and Maintenance of Plant	1,816,901	0	0	0	48,034	1,864,935
Pupil Transportation	1,748,621	0	0	0	35,303	1,783,924
Central	343,005	0	0	0	28,665	371,670
Operation of Non-Instructional Services	0	0	0	0	6,687	6,687
Food Service Operations	0	0	0	0	1,069,389	1,069,389
Extracurricular Activities	20,116	0	0	0	166,055	186,171
Capital Outlay	208,438	0	308,440	1,630,819	0	2,147,697
Debt Service:						
Principal Retirement	44,539	368,053	0	0	0	412,592
Interest and Fiscal Charges	2,161	702,499	0	0	0	704,660
Issuance Costs	0	151,001	0	0	0	151,001
<i>Total Expenditures</i>	<u>22,401,566</u>	<u>1,247,079</u>	<u>449,708</u>	<u>1,630,819</u>	<u>2,592,675</u>	<u>28,321,847</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(676,235)</u>	<u>170,860</u>	<u>55,812</u>	<u>2,932,961</u>	<u>104,965</u>	<u>2,588,363</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	0	0	0	565,977	0	565,977
Refunding Bonds Issued	0	9,254,993	0	0	0	9,254,993
Premium on Refunding Bonds Issued	0	778,858	0	0	0	778,858
Discount on Refunding Bonds Issued	0	(47,720)	0	0	0	(47,720)
Transfers Out	0	0	(565,977)	0	0	(565,977)
Payment to Refunded Bond Escrow Agent	0	(9,835,130)	0	0	0	(9,835,130)
Total Other Financing Sources (Uses)	<u>0</u>	<u>151,001</u>	<u>(565,977)</u>	<u>565,977</u>	<u>0</u>	<u>151,001</u>
<i>Net Change in Fund Balances</i>	<u>(676,235)</u>	<u>321,861</u>	<u>(510,165)</u>	<u>3,498,938</u>	<u>104,965</u>	<u>2,739,364</u>
<i>Fund Balances Beginning of Year</i>	<u>2,236,391</u>	<u>988,341</u>	<u>2,764,538</u>	<u>164,727</u>	<u>969,766</u>	<u>7,123,763</u>
<i>Fund Balances End of Year</i>	<u>\$1,560,156</u>	<u>\$1,310,202</u>	<u>\$2,254,373</u>	<u>\$3,663,665</u>	<u>\$1,074,731</u>	<u>\$9,863,127</u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Reconciliation of the Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$2,739,364</b>
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions exceeded depreciation in the current period.		
Fixed Assets Addition	2,186,334	
Depreciation	<u>(1,248,609)</u>	
Total		937,725
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(4,546)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Property Taxes	(356,203)	
Intergovernmental	45,331,835	
Revenue in Lieu of Taxes	<u>(41,489)</u>	
Total		44,934,143
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
General Obligation Bonds	360,000	
Energy Conservation Loans	8,053	
Capital Leases	<u>44,539</u>	
Total		412,592
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		
Accrued Interest		12,446
General Obligation bonds issued and bond premiums and discounts are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets.		
General Obligation Bonds Issued	(9,254,993)	
Premium on Bonds Issued	(778,858)	
Current Year Premium Amortization	<u>8,148</u>	
Total		(10,025,703)
Payment to refunded bond escrow agent is an other financing use in governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		
		9,835,130
Bond Issuance costs are debt service expenditures in governmental funds, when paid, but are reported as deferred charges assets on the statement of activities and are allocated as an expense over the life of the outstanding debt on the statement of activities.		
Bond Issuance Costs Paid	151,001	
Current Year Amortization	(3,269)	
Total		147,732
Bond Discounts are reported as other financing uses in governmental funds, but are allocated as an expense over the life of the bonds.		
Discount on Bonds Issued	47,720	
Current year amortization	<u>(2,643)</u>	
Total		45,077
Compensated Absences are expenses reported in the statement of activities but do not require the use of current resources and therefore are not reported as expenditures in governmental funds.		
		(31,028)
The internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among governmental activities.		
		<u>(26,221)</u>
<i>Change in Net Assets of Governmental Activities</i>		<u><b>\$48,976,711</b></u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Property Taxes	\$6,600,000	\$6,401,224	\$6,401,224	\$0
Intergovernmental	14,097,246	14,259,839	14,259,839	0
Interest	200,000	315,000	310,062	(4,938)
Tuition and Fees	306,125	310,216	310,216	0
Extracurricular Activities	138,500	75,989	75,989	0
Rent	3,500	5,297	5,297	0
Revenue in Lieu of Taxes	38,177	38,177	38,177	0
Miscellaneous	92,000	125,937	127,794	1,857
<i>Total Revenues</i>	<u>21,475,548</u>	<u>21,531,679</u>	<u>21,528,598</u>	<u>(3,081)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,729,274	10,458,557	10,845,819	(387,262)
Special	1,867,264	1,936,299	1,478,397	457,902
Vocational	382,620	375,230	375,230	0
Support Services:				
Pupils	503,322	530,757	530,756	1
Instructional Staff	1,039,299	1,126,414	1,126,414	0
Board of Education	705,358	1,073,140	1,263,624	(190,484)
Administration	2,119,507	2,190,795	2,191,340	(545)
Fiscal	468,570	456,416	454,463	1,953
Operation and Maintenance of Plant	1,891,096	1,811,916	1,812,365	(449)
Pupil Transportation	1,822,257	1,771,867	1,774,421	(2,554)
Central	332,885	344,579	355,560	(10,981)
Extracurricular Activities	45,060	23,087	23,087	0
Capital Outlay	151,063	232,070	234,960	(2,890)
<i>Total Expenditures</i>	<u>22,057,575</u>	<u>22,331,127</u>	<u>22,466,436</u>	<u>(135,309)</u>
Excess of Revenues Under Expenditures	<u>(582,027)</u>	<u>(799,448)</u>	<u>(937,838)</u>	<u>(138,390)</u>
<i>Net Change in Fund Balance</i>	<u>(582,027)</u>	<u>(799,448)</u>	<u>(937,838)</u>	<u>(138,390)</u>
<i>Fund Balance Beginning of Year</i>	2,155,393	2,155,393	2,155,393	0
Prior Year Encumbrances Appropriated	<u>478,246</u>	<u>478,246</u>	<u>478,246</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,051,612</u>	<u>\$1,834,191</u>	<u>\$1,695,801</u>	<u>(\$138,390)</u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2006*

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,240,072
<b>Current Liabilities</b>	
Claims Payable	<u>393,055</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$847,017</u></u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2006*

	<u>Governmental</u> <u>Activity</u> <u>Internal Service</u> <u>Fund</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$3,164,627</u>
<b>Operating Expenses</b>	
Purchased Services	283,090
Claims	<u>2,907,758</u>
<i>Total Operating Expenses</i>	<u>3,190,848</u>
<i>Operating Loss</i>	(26,221)
<i>Net Assets Beginning of Year</i>	<u>873,238</u>
<i>Net Assets End of Year</i>	<u><u>\$847,017</u></u>

See accompanying notes to the basic financial statements

**Tri-Valley Local School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2006

	Governmental Activity
	Internal Service Fund
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$3,164,627
Cash Payments for Services	(328,721)
Cash Payments for Claims	(2,725,786)
	110,120
<i>Net Cash Provided by Operating Activities</i>	110,120
<i>Net Increase in Cash and Cash Equivalents</i>	110,120
<i>Cash and Cash Equivalents Beginning of Year</i>	1,129,952
<i>Cash and Cash Equivalents End of Year</i>	\$1,240,072
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating Loss	(\$26,221)
Decrease in Accounts Payable	(45,631)
Increase in Claims Payable	181,972
	\$110,120
<i>Net Cash Provided by Operating Activities</i>	\$110,120
See accompanying notes to the basic financial statements	

**Tri-Valley Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Fund*  
*June 30, 2006*

	<i>Agency</i>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$114,049
<i>Total Assets</i>	\$114,049
<b>Liabilities</b>	
Undistributed Monies	\$17,403
Due to Students	96,646
<i>Total Liabilities</i>	\$114,049

See accompanying notes to the basic financial statements

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**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Tri-Valley Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1966. The School District serves an area of approximately 230 square miles. It is located in Muskingum and Coshocton Counties and includes all of Adams, Jefferson, Salem, Jackson, Muskingum, and Madison Townships. Only a portion of Licking, Virginia, and Washington Townships are included. The School District is the 155<sup>th</sup> largest State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 130 non-certified employees, 199 certified full-time teaching personnel, and 16 administrative employees who provide services to 3,073 students and other community members. The School District currently includes 13 instructional/support buildings.

*Reporting Entity:*

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not include any entities that are considered component units within the reporting entity.

The School District participates in the Licking Area Computer Association (LACA), the Mid-East Ohio Career and Technology Centers, the East Central Ohio Special Education Regional Resource Center (ECOSERRC), and the Metropolitan Educational Council (MEC), which are defined as jointly governed organizations and the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Benefits Cooperative, which are defined as public entity risk pools. Additional information concerning these organizations is presented in Notes 16 and 17.

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

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

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**A. Basis of Presentation**

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, has no business type activities.

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

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

**B. Fund Accounting**

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

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

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

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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***Debt Service Fund*** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest, and related costs.

***Permanent Improvement Fund*** - The Permanent Improvement Fund is used to account for donations and general fund transfers which are used to finance various capital projects in the School District.

***Building Fund*** - The Building Fund is used to account for the receipts and expenditures related to the construction and renovations of facilities of the School District being financed through the Ohio School Facilities Commission and Locally Funded Initiatives.

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

***Proprietary Fund Type*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The School District has no enterprise funds.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, prescription drug and dental claims.

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

### **C. Measurement Focus**

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

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

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund is included on the statement of net assets. The statement of changes in fund net assets presents increases

(i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

**D. Basis of Accounting**

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

***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 School District, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 6). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**E. Cash and Cash Equivalents**

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

During fiscal year 2006, investments were limited to non-negotiable certificates of deposit, negotiable certificates of deposit, Federal Home Loan Bank Notes, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Association Bonds, Federal Farm Credit Bank Notes, and State Treasury Asset Reserve of Ohio (STAROhio). Investments are reported at fair value, except for non-negotiable certificates of deposit which are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$317,532, which includes \$189,110, assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments. The School District reports the change in fair value of investments. The calculation of realized gains/losses is independent of the calculation of the change in the fair value of investments. The realized gains/losses of the current period include unrealized amounts from prior periods.

**F. 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 externally imposed by creditors, contributors, grantors, or laws of other governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund include amounts required by state statute to be set-aside to create a reserve for budget stabilization. See Note 18 for additional information regarding set-asides.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
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**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale.

**I. Capital Assets**

The only capital assets of the School District are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. 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 for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	30 Years
Buildings and Improvements	10-50 Years
Furniture and Equipment	5-10 Years
Vehicles	5-9 Years

**J. Interfund Balances**

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

**K. Compensated Absences**

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

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

The entire sick leave benefit liability is reported on the government-wide financial statements.

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*Notes to the Basic Financial Statements*  
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On the government fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured severance payable" in the fund from which the employee will be paid.

**L. Accrued Liabilities and Long-Term Obligations**

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

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

**M. Bond Discounts, Premiums, and Issuance Costs**

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds.

Any gain/loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the governmental fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**N. 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.

**O. Fund Balance Reserves**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and budget stabilization.

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
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The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

**P. 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 enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net Assets restricted for other purposes include amounts from local sources, including tax levy proceeds for the Maintenance of Classroom Facilities that are restricted for specified purposes. The government-wide statement of net assets reports \$53,090,368 of restricted net assets, of which none has resulted from enabling legislation.

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

**Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this determination are reported as non-operating.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. No such items were reported for fiscal year 2006.

**S. 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.

**T. Budgetary Data**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
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control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer has been given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES**

**Change in Accounting Principles** For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”, and GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

	<u>General</u>
GAAP Basis	(\$676,235)
Net Adjustment for Revenue Accruals	(196,733)
Net Adjustment for Expenditure Accruals	401,020
Adjustment for Encumbrances	<u>(465,890)</u>
Budget Basis	<u><u>(\$937,838)</u></u>

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

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*Notes to the Basic Financial Statements*  
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5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$7,768,248 of the School District's bank balance of \$8,111,848 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

Investments

As of June 30, 2006, the School District had the following investments which are in an internal investment pool:

	Fair Value	Maturity	Percent of Total Investments
Negotiable Certificate of Deposit	\$96,812	1/22/2007	3.10%
Negotiable Certificate of Deposit	95,245	9/10/2007	3.05%
Federal Home Loan Bank Note	98,344	1/23/2007	
Federal Home Loan Bank Note	147,421	1/26/2007	
Federal Home Loan Bank Note	98,406	1/26/2007	
Federal Home Loan Bank Note	147,704	2/22/2007	
Federal Home Loan Bank Bond	248,827	3/13/2009	
Federal Home Loan Bank Bond	244,375	9/17/2009	
Federal Home Loan Bank Bond	197,876	9/30/2009	
Federal Home Loan Bank Bond	296,439	10/28/2009	
Federal Home Loan Bank Bond	248,048	3/29/2011	55.40%
Federal Farm Credit Bank Note	147,704	1/29/2007	4.74%
Federal Home Loan Mortgage Corporation Bond	95,917	7/28/2009	3.08%
Federal National Mortgage Association Bond	247,578	5/10/2010	
Federal National Mortgage Association Bond	383,317	4/28/2011	20.23%
STAROhio	324,217	average 34.77 days	10.40%
Totals	<u>\$3,118,230</u>		<u>100.00%</u>

*Interest Rate Risk.* The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk.* All of the investments listed above, excluding STAROhio and the negotiable certificates of deposits, carry a rating of Aaa by Moody's. STAROhio carries a rating of AAAM by Standard and Poor's, and the negotiable certificates of deposit are not rated. Ohio Law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

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

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
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*Concentration of Credit Risk.* The School District places no limit on the amount it may invest in any one issuer. The percentage of total investments is listed in the table above.

**NOTE 6 - PROPERTY TAXES**

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

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

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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

The amount available as an advance at June 30, 2006 was \$2,305,733 in the general fund, \$480,507 in the debt service fund, and \$50,988 in the facilities maintenance fund. The amount available as an advance at

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
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June 30, 2005, was \$2,157,635 in the general fund, \$449,432 in the debt service fund, and \$47,606 in the miscellaneous local fund.

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

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

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$245,148,400	80.30%	\$256,803,660	85.41%
Public Utility Personal	22,252,980	7.29%	22,346,640	7.43%
General Business Property	37,874,012	12.41%	21,508,982	7.15%
	\$305,275,392	100.00%	\$300,659,282	100.00%
Tax Rate per \$1,000 of assessed valuation		\$40.55		\$40.55

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006, consisted of property taxes, revenue in lieu of taxes, intergovernmental, and grants. 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. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$358,595 and the Ohio School Facilities Commission receivable, which is a multiple year project. A summary of the principal items of intergovernmental receivables follows:

	Amounts
<b>Governmental Activities</b>	
Ohio School Facilities Grant	\$45,355,163
Title I	39,638
Titel II-A	16,847
Food Service	38,442
Part B - IDEA	65,908
Total	\$45,515,998

In prior years, tax abatement agreements were entered into between the District and local businesses to encourage economic growth in the County. In addition to the abatements, the businesses also agreed to make revenue in lieu of taxes payments. Each agreement states a specified percentage that the businesses will pay based on what the property taxes would normally have been. The receivables have been recorded in the funds due to collect the payments pursuant to the agreements. The District is not able to record a receivable for the entire amount of all payments because the payments are based upon projected collections.

**Tri-Valley Local School District**  
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For the Fiscal Year Ended June 30, 2006

In August, 2005, the School District was awarded an Ohio School Facilities Grant. As of June 30, 2006, the remaining amount of the Grant, \$45,355,163 is recorded as a receivable and deferred revenue on the balance sheet.

**NOTE 8 – TRANSFERS**

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	Transfer to
	Major Fund
Transfer from	Building Fund
Permanent Improvement	\$565,977

Transfers were used to transfer the local share of the Ohio School Facilities project from the Permanent Improvement Fund to the Building Fund.

**NOTE 9 - CAPITAL ASSETS**

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

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
<b>Nondepreciable Capital Assets:</b>				
Land	\$807,422	\$210,000	\$0	\$1,017,422
Construction in Progress	0	1,630,338	0	1,630,338
<b>Total Nondepreciable Capital Assets</b>	<b>807,422</b>	<b>1,840,338</b>	<b>0</b>	<b>2,647,760</b>
<b>Depreciable Capital Assets:</b>				
Land Improvements	525,066	68,280		593,346
Buildings and Improvements	29,186,974	18,702	0	29,205,676
Furniture and Equipment	1,164,473	56,139	(22,540)	1,198,072
Vehicles	1,942,251	202,875	(153,918)	1,991,208
<b>Total Depreciable Capital Assets</b>	<b>32,818,764</b>	<b>345,996</b>	<b>(176,458)</b>	<b>32,988,302</b>
<b>Accumulated Depreciation:</b>				
Land Improvements	(110,384)	(22,363)	0	(132,747)
Buildings and Improvements	(5,772,351)	(988,292)	0	(6,760,643)
Furniture and Equipment	(706,646)	(70,399)	17,995	(759,050)
Vehicles	(1,152,417)	(167,555)	153,917	(1,166,055)
<b>Total Accumulated Depreciation</b>	<b>(7,741,798)</b>	<b>(1,248,609)</b>	<b>171,912</b>	<b>(8,818,495)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>25,076,966</b>	<b>(902,613)</b>	<b>(4,546)</b>	<b>24,169,807</b>
<b>Governmental Capital Assets, Net</b>	<b>\$25,884,388</b>	<b>\$937,725</b>	<b>(\$4,546)</b>	<b>\$26,817,567</b>

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
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Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$591,514
Special	85,999
Vocational	32,614
Support Services:	
Pupil	18,778
Instructional Staff	61,274
Board of Education	988
Administration	110,334
Fiscal	988
Operation of Maintenance and Plant	43,928
Pupil Transportation	174,819
Central	18,986
Food Service Operations	36,918
Operation of Non-Instructional Services	24,707
Extracurricular Activities	46,762
Total Depreciation Expense	<u><u>\$1,248,609</u></u>

**NOTE 10 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District contracts with Kennedy Insurance Company for property, and fleet insurance. Professional liability is protected by Kennedy Insurance Company with a \$2,000,000 single occurrence limit and a \$4,000,000 aggregate. Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no reductions in coverage from the prior year.

A performance bond in the amount of \$20,000 is maintained for the treasurer. All other employees are covered by a \$10,000 blanket bond. All bonds are covered by the Ohio Casualty Insurance Company.

Medical/surgical, prescription drug and dental insurance is offered to employees through a self-insurance internal service fund. Effective April 1, 2006, the School District began participation with the Ohio School Benefits Cooperative with Medical Mutual serving as the third-party administrator for the plan. The School District pays 100 percent of the premiums for the medical/surgical and prescription drug coverage which are \$900 for family coverage of \$332 for individual coverage per month. The premium is paid by the fund that pays the salary for the covered employee. The dental premiums are also paid 100 percent by the School District and are \$78 for family coverage or \$30 for individual coverage.

The claims liability of \$393,055 reported in the internal service fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

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Changes in claims activity for the past two fiscal years are as follows:

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at End <u>of Year</u>
2005	\$145,816	\$2,301,019	\$2,235,752	\$211,083
2006	211,083	2,907,758	2,725,786	393,055

For fiscal year 2006 the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employee Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$336,749, \$346,531, and \$229,411 respectively; 44.44 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**B. State Teachers Retirement System of Ohio**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a

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stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,213,251, \$1,454,765, and \$1,355,417 respectively; 73.39 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$6,722 made by the School District and \$17,752 made by the plan members.

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

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **NOTE 12 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified

**Tri-Valley Local School District**  
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employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$93,327 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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, compared to 3.43 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$64,334.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005, (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants eligible to receive health care benefits.

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 260 days do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 15 days per year, with a total maximum accumulation of 248 days. Upon retirement, certified employees are eligible for payment of 25 percent of unused sick leave. Certified employees with 30 years or more of retirement credit shall

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be eligible for a \$15,000 retirement incentive providing the employee retires by July 1, of the school year in which they first become eligible for retirement. Classified employees, upon retirement, are eligible for payment of 25 percent of unused sick leave.

**B. Other Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to its employees. Term life insurance coverage is \$20,000 with an additional \$20,000 of accidental death and disbursement coverage for certified and non-certified staff. For administrators, coverage is calculated at \$1,000 for every \$1,000 earned with a maximum of \$50,000. Coverage is provided by American United Insurance Company of America. The rate is \$3.30 per month for all employees.

An additional employee benefit which is offered through the District is vision insurance through Vision Service Plan, Inc. The rate is \$5.28 for single and \$11.95 for family for all employees.

**NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

In prior years, the School District has entered into capitalized leases for copying equipment. During fiscal year 2006, two of the three capital leases were fully repaid, leaving one outstanding capital lease at June 30, 2006.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments have been reclassified and are reflected as General Fund debt service expenditures in the financial statements. They are presented as current expenditures in the budgetary statements. Capital assets acquired by governmental activities through capitalized leases were recorded in the amount of \$7,074, which is equal to the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation on the asset is \$4,244 leaving a book value of \$2,830. Principal payments in fiscal year 2006 totaled \$44,539 in the governmental funds.

Future minimum lease payments are as follows:

Fiscal Year	Principal	Interest	Total
<u>Ending June 30, 2006</u>	<u>          </u>	<u>          </u>	<u>          </u>
2007	<u>\$627</u>	<u>\$9</u>	<u>\$636</u>

**NOTE 15 - LONG - TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

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	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due In One Year
<b>General Obligation Bonds:</b>					
2002 School Improvement Bonds, \$18,500,000					
Serial Bonds - 2.00-4.5%, \$3,880,000	\$3,045,000	\$0	\$1,120,000	\$1,925,000	\$405,000
Term Bonds - 5.25-5.75% \$14,620,000	14,620,000	0	8,495,000	6,125,000	0
Serial/Term Bond Premium, \$228,153	201,672	0	8,148	193,524	0
Term Bond Discount, \$74,000	(65,410)	0	(55,368)	(10,042)	0
<b>Total 2002 School Improvement Bonds</b>	<b>17,801,262</b>	<b>0</b>	<b>9,567,780</b>	<b>8,233,482</b>	<b>405,000</b>
2006 Advance Refunding Bonds, \$9,254,993					
Serial Bonds - 4.1-4.4%, \$7,130,000	0	7,130,000	0	7,130,000	0
Term Bonds - 4.25%, \$1,695,000	0	1,695,000	0	1,695,000	0
Capital Appreciation Bonds - 3.7-4.4%, \$429,993	0	429,993	0	429,993	180,465
CAB Accretion - 30.656%, \$1,070,007	0	0	0	0	0
CAB Premium - \$778,859	0	778,858	0	778,858	0
Serial/Term Bond Discount - \$43,312 & \$4,408	0	(47,720)	0	(47,720)	0
Refunding Difference - \$632,855	0	(632,855)	0	(632,855)	0
<b>Total 2006 Advance Refunding Bonds</b>	<b>0</b>	<b>9,353,276</b>	<b>0</b>	<b>9,353,276</b>	<b>180,465</b>
<b>Total General Obligation Bonds</b>	<b>17,801,262</b>	<b>9,353,276</b>	<b>9,567,780</b>	<b>17,586,758</b>	<b>585,465</b>
Energy Conservation Loan, 1989, \$144,946 - 0%	11,340	0	8,053	3,287	3,287
Capital Lease - Copiers	45,166	0	44,539	627	627
Compensated Absences	1,243,347	220,026	188,998	1,274,375	95,914
<b>Total Long-Term Liabilities</b>	<b>\$19,101,115</b>	<b>\$9,573,302</b>	<b>\$9,809,370</b>	<b>\$18,865,047</b>	<b>\$685,293</b>

*2002 General Obligation Bonds* - On March 28, 2002, the School District issued \$18,500,000 in voted general obligation bonds to pay the local share of the school construction under the state of Ohio Classroom Facilities Assistance Program, as part of the Expedited Local Partnership Program. The bond issue included serial and term bonds in the amount of \$3,880,000 and \$14,620,000 respectively. During fiscal year 2006, the School District made the scheduled repayment of serial bonds in the amount of \$360,000, and advance refunded \$760,000 of the serial bonds, and \$8,495,000 of the term bonds. The advance refunded portion of the bonds, as well as the unamortized discount of these advance refunded bonds were removed from the financial statements of the School District. The remaining outstanding bonds are being retired from the Debt Service Fund. The serial and a portion of the term bonds were originally sold at a premium of \$228,153, with a portion of the term bonds being sold at a discount of \$74,000, of which \$10,042 remained outstanding after the refunding. Both the premium and discount will be amortized over the life of the bonds. Issuance costs associated with the bond issue were \$91,545 and are deferred and will be amortized over the life of the bond issue. The original bonds were issued for a 28-year period with a final maturity at December 1, 2029, and after the advance refunding have a final maturity at December 1, 2023. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new building. The School District must maintain a maintenance plan and submit it to the Ohio School Facilities Commission every 5 years for the term of the bonds.

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The term bonds maturing on December 1, 2016, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1 in each of the years 2014 through 2015 (with the balance of \$470,000 to be paid at stated maturity on December 1, 2016) at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2014	\$365,000
2015	420,000

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1 in each of the years 2017 through 2018 (with the balance of \$660,000 to be paid at stated maturity on December 1, 2009) at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2017	\$530,000
2018	595,000

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2020 (with balance of \$815,000 to be paid at stated maturity on December 1, 2021), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2020	\$735,000

The term bonds maturing on December 1, 2023, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2022 (with the balance of \$635,000 to be paid at stated maturity on December 1, 2023) at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2022	\$900,000

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Principal and interest requirements to retire general obligation bonds for the outstanding 2002 School Improvement Bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$405,000	\$406,511	\$811,511
2008	225,000	395,463	620,463
2009	260,000	386,100	646,100
2010	300,000	374,525	674,525
2011 - 2015	1,100,000	1,706,717	2,806,717
2016-2020	2,675,000	1,249,649	3,924,649
2021-2024	3,085,000	326,232	3,411,232
Total	<u>\$8,050,000</u>	<u>\$4,845,197</u>	<u>\$12,895,197</u>

*2006 Advance Refunding General Obligation Bonds* – The School District had previously issued 2002 school improvement general obligation bonds for school improvements that were partially refunded through the 2006 school improvement refunding general obligation bonds. At the date of refunding, \$9,835,130 (including premium, and after discount, underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 2002 School Improvement Bonds. As all of the legal steps had been taken to refund the debt, the balance of the outstanding bonds refunded was removed from the School District’s financial statements, and as of June 30, 2006, \$9,255,000 of the refunded bonds are still outstanding, and the balance of the irrevocable trust account was \$9,644,984.

On April 20, 2006, the Tri-Valley Local School District issued \$9,254,993 of general obligation bonds that were issued to partially refund the 2002 school improvement general obligation bonds. The bonds were issued for an 23 year period with final maturity at December 1, 2029. These refunding bonds were issued with a discount of \$47,720 which is reported as a decrease to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method, the amortization of the premium for fiscal year 2006 was \$0, as the refunding occurred close to the end of the fiscal year. The issuance costs of \$151,001 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2006 was \$0, as the refunding occurred close to the end of the fiscal year. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$632,855. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2006 was \$0, as the refunding occurred close to the end of the fiscal year. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$781,203. The issuance resulted in an economic gain of \$499,056.

The 2006 bond issue consists of serial, term and capital appreciation bonds. These bonds are not subject to early redemption.

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The capital appreciation bonds for the 2006 issue mature December 1, 2006 through December 1, 2016. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$1,500,000. For fiscal year 2006, \$0 was accreted, as the refunding occurred close to the end of the fiscal year, for a total bond liability of \$429,993.

Principal and interest requirements to retire general obligation bonds for the 2006 School Improvement Refunding Bonds outstanding at June 30, 2006 are as follows:

Fiscal Year	Serial/Term Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2007	\$0	\$381,836	\$180,465	\$34,535	\$180,465	\$416,371
2008	0	381,836	41,020	23,980	41,020	405,816
2009	0	381,836	30,841	34,159	30,841	415,995
2010	0	381,836	23,187	41,813	23,187	423,649
2011	0	381,836	17,434	47,566	17,434	429,402
2012-2016	0	1,909,170	135,592	859,408	135,592	2,768,578
2017-2021	30,000	1,898,179	1,454	28,546	31,454	1,926,725
2022-2026	1,210,000	1,728,562	0	0	1,210,000	1,728,562
2027-2030	7,585,000	540,803	0	0	7,585,000	540,803
<b>Totals</b>	<b>\$8,825,000</b>	<b>\$7,985,894</b>	<b>\$429,993</b>	<b>\$1,070,007</b>	<b>\$9,254,993</b>	<b>\$9,055,901</b>

*The Energy Conservation Loan* was issued in 1989 and was for asbestos abatement projects throughout the School District. The loan was at zero interest and is scheduled to be fully repaid during fiscal year 2007.

Capital leases will be paid from the General Fund.

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund.

At June 30, 2006, the School District's overall legal debt margin was \$8,957,691, with an unvoted debt margin of \$276,625.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

*Licking Area Computer Association* – Licking Area Computer Association (LACA) is a jointly governed organization of a two county consortium of school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and others electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LACA based upon a per pupil charge dependent upon the software package utilized. LACA is governed by a Board of Directors consisting of the superintendents of the 15 member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. For fiscal year 2006, the Districts paid \$88,396 for services.

*Mid-East Career and Technology Centers* - The Mid-East Career and Technology Centers is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. The continued existence of the Center is not dependent on the

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School District's continued participation and no equity interest exists. To obtain financial information, write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 400 Richards Road, Zanesville, Ohio 43701.

*East Central Ohio Special Education Regional Resource Center (ECO SERRC)* – The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECO SERRC operates under the direction of an Advisory Board. This board establishes policy, approves the budget and recommends employment through the fiscal agent. The Advisory Board operates under guidelines developed by the Office for Exceptional Children at the Ohio Department of Education and consists of one or more superintendents from each of the 10 counties in the region and two parents. It may also include one representative from the County Boards of Mental Retardation and Developmental Disabilities, a representative from an institution of higher education and others at the discretion of the Advisory Board. The ECO SERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECO SERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECO SERRC.

*Metropolitan Educational Council (MEC)* – The Metropolitan Educational Council is a consortium of school districts and related agencies in Ohio. The organization is comprised of 135 members. The governing board is comprised of either the superintendent or his designated representative from each participating school district in Franklin County and one representative from each county outside Franklin County. Each year the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The District's membership payment to MEC for fiscal year 2006 was \$1,223. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

**NOTE 17 – PUBLIC ENTITY POOLS**

**A. Insurance Purchasing Pool**

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

**B. Claims Servicing Pool**

*The Ohio School Benefits Cooperative* – The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. The OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverages for their employees, and the eligible dependents and designated beneficiaries of such employees, and propose to have certain other eligible school districts or groups join them for the same purposes. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC.

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

The School District is required by State statute to annually set aside, in the general fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. Qualifying disbursements and/or similarly restricted resources can be applied against the annual statutory formula amount in order to reduce (or eliminate) the amount otherwise required to be set aside.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the School District's general fund or may be left in the account and used by the board to offset any budget deficit the School District may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. At June 30, 2006, the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0	\$76,359
Current Year Set-aside Requirement	469,209	469,209	0
Current Year Offsets	0	(419,067)	0
Qualifying Transfers	0	0	0
Qualifying Disbursements	(558,191)	(944,055)	0
Totals	<u>(\$88,982)</u>	<u>(\$893,913)</u>	<u>\$76,359</u>
Allowable Carry Forward for Fiscal Year 2006	(88,982)	0	0
Allowable Carry Forward at June 30, 2006	(477,607)	17,930,803	0
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$566,589)</u>	<u>\$17,930,803</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$0</u>	<u>\$0</u>	<u>\$76,359</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. The School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside. This extra amount may not be carried forward. The School District had prior year offsets related to proceeds of securities issued for the construction of school facilities that may be carried forward to offset future set-aside requirements.

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 19 – CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006

**B. Litigation**

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**NOTE 20 – SUBSEQUENT EVENTS**

Contracts:

The School District Board of Education, at a Special Board meeting held on July 6, 2006, awarded the following contracts for construction of the Adamsville Elementary building as part of the Classroom Facilities Project:

<u>Description</u>	<u>Contractor</u>	<u>Bid Amount</u>
Early Site Package	RF Scurlock	\$369,000

The School District Board of Education, at a Special Board meeting held on July 28, 2006, awarded the following contracts for construction of the Nashport and Frazeyburg Elementary buildings as part of the Classroom Facilities Project:

<u>Description</u>	<u>Contractor</u>	<u>Bid Amount</u>
Early Site Packages	RF Scurlock	\$499,344
Early Site Packages	Performance Site	429,700

The School District Board of Education, at a Special Board meeting held on August 10, 2006, awarded the following contracts for the purchase of 2 school buses:

<u>Description</u>	<u>Contractor</u>	<u>Bid Amount</u>
2 Buses	Midvale Truck Sales	\$141,862

The School District Board of Education, at a Special Board meeting held on November 1, 2006, awarded the following contracts for construction of the Adamsville and Frazeyburg Elementary buildings as part of the Classroom Facilities Project:

**Tri-Valley Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

<b>Description</b>	<b>Contractor</b>	<b>Bid Amount</b>
General Construction	Claggett & Sons, Inc.	\$7,868,387
Plumbing	Gutridge Plumbing, Inc	776,512
Fire Protection	Gutridge Plumbing, Inc	194,400
HVAC	The George Frueh, Co.	1,863,700
Electrical	City Electric Service, Inc.	1,545,960

The School District Board of Education, at a Special Board meeting held on November 15, 2006, awarded the following contracts for the construction of the Nashport and Dresden Elementary buildings as part of the Classroom Facilities Project:

<b>Description</b>	<b>Contractor</b>	<b>Bid Amount</b>
General Construction	Paul Construction Co.	\$8,587,000
Plumbing	Peterman Plumbing & Heating, Inc	931,672
Fire Protection	Gutridge Plumbing, Inc	234,400
HVAC	The George Frueh Co.	2,087,700
Electrical - Nashport School	Settle Muter Electric	901,000
Electrical - Dresden School	Waibel Electric	837,737
Kitchen Equipment	Breckenridge Kitchen Equipment & Design, Inc.	765,525
HVAC Controls	Siemens Building Technologies, Inc	489,900

The School District Board of Education, at a Special Board meeting held on January 19, 2007, awarded the following contracts for the construction and renovation of the Tri-Valley High School building as part of the Classroom Facilities Project:

<b>Description</b>	<b>Contractor</b>	<b>Bid Amount</b>
General Construction	Robertson Construction Services, Inc.	\$4,269,700
Plumbing	Gutridge Plumbing, Inc	351,976
Fire Protection	Central Fire Protection Company, Inc.	209,358
HVAC	Metal Masters, Inc.	1,890,125
Electrical and Technology	Claypool Electric, Inc.	2,253,850

Debt: As of the date of this financial report, the School District has made the final debt payments on both the Energy Conservation Loan and the capital lease.

The Board of Education, at a regular Board meeting held on July 13, 2006 approved a five year copier lease with MT Business Technologies for nine copiers.

**TRI-VALLEY LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Grant Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b> <i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$0	106,348	\$0	106,348
Nutrition Cluster:						
School Breakfast Program	10.553	048876-05PU-06	54,633		54,633	
National School Lunch Program	10.555	048876-05PU-06	312,359		312,359	
Total Nutrition Cluster			<u>366,992</u>	<u>0</u>	<u>366,992</u>	<u>0</u>
Total United States Department of Agriculture			<u>366,992</u>	<u>106,348</u>	<u>366,992</u>	<u>106,348</u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	048876-C1S1-05	25,603		38,582	
	84.010	048876-C1S1-06	178,538		177,935	
Total Title I Grants to Local Educational Agencies			204,141	0	216,517	0
Special Education Grants to States	84.027	048876-6BSF-05	22,341		51,203	
	84.027	048876-6BSF-06	579,192		530,822	
Total Special Education Grants to States			601,533	0	582,025	0
Safe and Drug-Free Schools and Communities: State Grants	84.186	048876-DRS1-06	11,334		11,334	
State Grants for Innovative Programs	84.298	048876-C2S1-06	8,957		8,957	
Education Technology State Grants	84.318	048876-TJS1-05	(2,330)		1,434	
	84.318	048876-TJS1-06	8,335		8,335	
Total Education Technology State Grants			6,005	0	9,769	0
Improving Teacher Quality State Grants	84.367	048876-C2S1-05	20,365		25,069	
	84.367	048876-C2S1-06	90,669		82,967	
Total Improving Teacher Quality State Grants			<u>111,034</u>	<u>0</u>	<u>108,036</u>	<u>0</u>
Total United States Department of Education			<u>943,004</u>	<u>0</u>	<u>936,638</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<u><b>\$1,309,996</b></u>	<u><b>\$106,348</b></u>	<u><b>\$1,303,630</b></u>	<u><b>\$106,348</b></u>

*The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of the Schedule.*

**TRI-VALLEY LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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

**NOTE C – TRANSFERS DUE TO CARRYOVER**

During fiscal year 2006, the School District had Education Technology State Grant funding in the amount of \$2,330 that was transferred from the program year 2005 grant to the program year 2006 grant.



# Mary Taylor, CPA

## Auditor of State

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

Tri-Valley Local School District  
Muskingum County  
36 E. Muskingum Avenue  
Dresden, Ohio 43821

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tri-Valley Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 21, 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

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

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated February 21, 2007, we reported another matter related to noncompliance we deemed immaterial.

Tri-Valley Local School District  
Muskingum County  
Independent Accountants' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Required by *Government Auditing Standards*  
Page 2

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

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

**Mary Taylor, CPA**  
Auditor of State

February 21, 2007



# Mary Taylor, CPA

## Auditor of State

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

Tri-Valley Local School District  
Muskingum County  
36 E. Muskingum Avenue  
Dresden, Ohio 43821

To the Board of Education:

#### Compliance

We have audited the compliance of Tri-Valley Local School District, Muskingum County, Ohio (the 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 apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

#### Internal Control over Compliance

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

Tri-Valley Local School District  
Muskingum County  
Independent Accountants' Report on Compliance with Requirements Applicable  
to Each Major Federal Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Page 2

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 21, 2007

**TRI-VALLEY LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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

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

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

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

None

**2. FINDINGS FOR FEDERAL AWARDS**

None





**Mary Taylor, CPA**  
Auditor of State

**TRI-VALLEY LOCAL SCHOOL DISTRICT**

**MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2007**