

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Basic Financial Statements

Year Ended June 30, 2005

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
Batavia Local School District
800 Bauer Avenue
Batavia, Ohio 45103

We have reviewed the *Independent Auditors' Report* of the Batavia Local School District, Clermont County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 2, 2006

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BATAVIA LOCAL SCHOOL DISTRICT, OHIO

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Clark, Schaefer, Hackett & Co.

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Batavia Local School District, Ohio:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Batavia Local School District, Ohio (the School District), as of and for the year ended June 30, 2005, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees* for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2006 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 11 and 45 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
July 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Batavia Local School District for the year ended June 30, 2005. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2005 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$5.8 million. However, \$4.4 million is invested in capital assets, net of related debt.
- ✓ In total, net assets increased by \$1.5 million.
- ✓ The School District had \$15.0 million in expenses related to governmental activities; only \$1.1 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$15.3 million, made up primarily of property taxes and State Foundation payments provided the majority of funding for these programs.
- ✓ The General Fund balance increased by \$717,524 from \$(720,802) at June 30, 2004 to \$(3,278) at June 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2005
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Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The business-type activities of the School District include food services and uniform school supplies.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

Proprietary funds. The School District utilizes enterprise funds, which report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget of the General Fund.

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Management's Discussion and Analysis
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Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2005 and 2004 (2004 amounts have been restated as disclosed in Note 2):

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>FY05</u>	<u>FY04</u>	<u>FY05</u>	<u>FY04</u>	<u>FY05</u>	<u>FY04</u>
Current and other assets	\$ 9,504,082	7,205,705	290,119	217,002	9,794,201	7,422,707
Capital assets	<u>11,843,388</u>	<u>12,287,193</u>	<u>39,304</u>	<u>47,108</u>	<u>11,882,692</u>	<u>12,334,301</u>
Total assets	<u>21,347,470</u>	<u>19,492,898</u>	<u>329,423</u>	<u>264,110</u>	<u>21,676,893</u>	<u>19,757,008</u>
Long-term debt outstanding	8,187,865	8,775,190	6,938	20,296	8,194,803	8,795,486
Other liabilities	<u>7,641,799</u>	<u>6,578,606</u>	<u>58,502</u>	<u>79,380</u>	<u>7,700,301</u>	<u>6,657,986</u>
Total liabilities	<u>15,829,664</u>	<u>15,353,796</u>	<u>65,440</u>	<u>99,676</u>	<u>15,895,104</u>	<u>15,453,472</u>
Net assets:						
Invested in capital assets, net of debt	4,368,739	4,541,676	39,304	47,108	4,408,043	4,588,784
Restricted:						
For capital purposes	-	21,008	-	-	-	21,008
For debt service	1,525,093	1,066,923	-	-	1,525,093	1,066,923
Other purposes	125,331	95,522	-	-	125,331	95,522
Unrestricted	<u>(501,357)</u>	<u>(1,586,027)</u>	<u>224,679</u>	<u>117,326</u>	<u>(276,678)</u>	<u>(1,468,701)</u>
Total net assets	\$ <u>5,517,806</u>	<u>4,139,102</u>	<u>263,983</u>	<u>164,434</u>	<u>5,781,789</u>	<u>4,303,536</u>

The increase in current assets of the governmental activities is primarily related to an increase in taxes receivable of approximately \$1.8 million as the result of property tax levy passed in March 2004. The remainder of the increase in current assets was related to cash as the School District's revenues exceeded expenses due to staff reductions and changes in transportation operations.

Other liabilities increased primarily related to an increase in deferred revenue. The majority of taxes receivable are deferred since they are intended to fund the upcoming fiscal year. Thus, as taxes receivable increase, generally deferred revenue will increase as well. The decrease in long-term debt outstanding is due to the scheduled payment on outstanding general obligation bonds.

BATAVIA LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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Unaudited

B. Governmental and Business-type Activities during fiscal year 2005

The following table presents a condensed summary of the School District's activities during fiscal year 2005 and 2004 and the resulting change in net assets:

	Governmental Activities		Business-Type Activities		FY05	Total FY04
	FY05	FY04	FY05	FY04		
Revenues:						
Program revenues:						
Charges for services and sales	\$ 127,150	108,359	440,533	432,680	567,683	541,039
Operating grants and contributions	948,680	848,658	237,541	248,002	1,186,221	1,096,660
Capital grants and contributions	<u>33,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,438</u>	<u>-</u>
Total program revenues	<u>1,109,268</u>	<u>957,017</u>	<u>678,074</u>	<u>680,682</u>	<u>1,787,342</u>	<u>1,637,699</u>
General revenues:						
Property taxes	7,259,525	6,063,572	-	-	7,259,525	6,063,572
Grants and entitlements	7,282,649	7,175,073	-	-	7,282,649	7,175,073
Investment earnings	50,825	36,484	-	-	50,825	36,484
Miscellaneous	719,382	968,436	-	-	719,382	968,436
Gain on sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues	<u>15,312,381</u>	<u>14,243,565</u>	<u>-</u>	<u>-</u>	<u>15,312,381</u>	<u>14,243,565</u>
Total revenues	<u>16,421,649</u>	<u>15,200,582</u>	<u>678,074</u>	<u>680,682</u>	<u>17,099,723</u>	<u>15,881,264</u>
Expenses:						
Instruction	8,969,596	9,874,191	-	-	8,969,596	9,874,191
Support services:						
Pupil	351,619	461,042	-	-	351,619	461,042
Instructional staff	544,864	566,316	-	-	544,864	566,316
Board of Education	97,994	78,188	-	-	97,994	78,188
Administration	1,459,782	1,414,180	-	-	1,459,782	1,414,180
Fiscal	375,557	396,937	-	-	375,557	396,937
Operation and maintenance of plant	1,191,682	1,550,016	-	-	1,191,682	1,550,016
Pupil transportation	1,218,663	936,816	-	-	1,218,663	936,816
Central	1,681	478	-	-	1,681	478
Non-instructional services	464,140	510,670	-	-	464,140	510,670
Interest and fiscal charges	367,367	332,543	-	-	367,367	332,543
Food services	-	-	492,989	563,870	492,989	563,870
Uniform school supplies	<u>-</u>	<u>-</u>	<u>85,536</u>	<u>119,857</u>	<u>85,536</u>	<u>119,857</u>
Total expenses	<u>15,042,945</u>	<u>16,121,377</u>	<u>578,525</u>	<u>683,727</u>	<u>15,621,470</u>	<u>16,805,104</u>
Change in net assets	\$ <u>1,378,704</u>	<u>(920,795)</u>	<u>99,549</u>	<u>(3,045)</u>	<u>1,478,253</u>	<u>(923,840)</u>

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Of the total governmental activities revenues of \$16,421,649, \$1,109,268 (7%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 47% (\$7,259,525) comes from property tax levies and 48% (\$7,282,649) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Revenues increased about \$1.2 million and expenses decreased about \$1.1 million. The primary reason for the increase in revenue was the passage of the 6.9 mill property tax levy in March 2004. As for expenses, the School District did make a commitment to reduce staff and other expenses as discussed above.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 7% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$8,969,596 but program revenue contributed to fund 11% of those costs. Thus, general revenues of \$8,007,177 were used to support of remainder of the instruction costs.

The School District's governmental activities net assets increased by \$1,378,704 due primarily to the commitment of the School District to make reductions of staff and the passage of the tax levy. The School District had projected the increase

Governmental Activities

		<u>Total Cost of Services</u>	<u>Program Revenue</u>	Revenues as a % of <u>Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$	8,969,596	962,419	11%	8,007,177
Support services		5,241,842	34,230	1%	5,207,612
Non-instructional services		464,140	112,619	24%	351,521
Interest and fiscal charges		<u>367,367</u>	<u>-</u>	0%	<u>367,367</u>
Total	\$	<u>15,042,945</u>	<u>1,109,268</u>	<u>7%</u>	<u>13,933,677</u>

Business-type Activities

Net assets of the business-type activities increased by \$99,549 primarily due to normal operations.

The following table presents the total cost of each of the School District's business segments and the net cost after deducting the revenues generated by each segment. Charges and operating grants paid for 111% of the costs of Food Services.

BATAVIA LOCAL SCHOOL DISTRICT
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Business-type Activities					
		<u>Total Cost</u>	<u>Program</u>	<u>Revenues</u>	<u>Net Cost</u>
		<u>of Services</u>	<u>Revenue</u>	<u>as a % of</u>	<u>(Revenue)</u>
				<u>Total Costs</u>	<u>of Services</u>
Food services	\$	492,989	548,138	111%	(55,149)
School supplies		<u>85,536</u>	<u>129,936</u>	152%	<u>(44,400)</u>
Total	\$	<u>578,525</u>	<u>678,074</u>	<u>117%</u>	<u>(99,549)</u>

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has two major governmental funds: the General Fund and Debt Service Fund. Assets of these two funds comprise \$9,320,092 (98%) of the total \$9,504,082 governmental funds assets.

General Fund. Fund balance at June 30, 2005 was (\$3,278), with an unreserved deficit fund balance of (\$1,414,877). The primary reason for the increase in fund balance of \$717,524 was due to the conditions noted above under governmental activities.

Debt Service Fund. Fund balance at June 30, 2005 was \$1,514,923. The Debt Service Fund is used to accumulate resources to pay general obligation bonds. The increase in fund balance of \$445,408 is the result of tax revenues exceeding the annual required debt service payments. The remaining outstanding general obligation bonds will be paid over the next twenty years.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. In the final budget of the School District, tax revenue collected in the fiscal year was less than projected due to tangible personal property reductions. The collections were less than projected due to ZF Batavia Transmission reductions in inventory. The School District will not collect the full amount of the new levy until calendar year 2006. Other local revenues were less than projected due to investment earnings and additional payments from ZF Batavia Transmission. Actual expenditures were less in special education than the original budget due to savings on contracts with several agencies the School District uses to provide services for special need students. The School District also provided certain special educational programs in-house.

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2005, the School District had \$11,882,692 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

		<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
		<u>FY05</u>	<u>FY04</u>	<u>FY05</u>	<u>FY04</u>	<u>FY05</u>	<u>FY04</u>
Land	\$	1,230,447	1,230,447	-	-	1,230,447	1,230,447
Land improvements		1,512,742	1,647,433	-	-	1,512,742	1,647,433
Buildings and improvements		7,970,452	8,356,012	-	-	7,970,452	8,356,012
Equipment and furniture		129,173	136,547	39,304	47,108	168,477	183,655
Vehicles		<u>1,000,574</u>	<u>916,754</u>	<u>-</u>	<u>-</u>	<u>1,000,574</u>	<u>916,754</u>
Total	\$	<u>11,843,388</u>	<u>12,287,193</u>	<u>39,304</u>	<u>47,108</u>	<u>11,882,692</u>	<u>12,334,301</u>

Debt

The School District paid the required scheduled principal payment of \$375,000 on its general obligation school improvement bonds during the fiscal year. The total general obligation bonds outstanding at year-end were \$6,235,000 with \$390,000 due within one year. The School District's general obligation bonds mature December 1, 2022. See Note 11 to the financial statements.

ECONOMIC FACTORS

A challenge facing the School District is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The passage of the State of Ohio's biennial budget bill (HB66) revised the tax law accelerating the phase out of tangible personal property tax. However, it included a hold harmless provision that will reimburse the School District within the first years (2006-2010) of cost revenue phasing out the reimbursement in the (7) subsequent years 2011-2017.

The School District is projecting an increase in enrollment and the current enrollment is at 1,959 students. The increase in interest rates will have an effect on new homes been built.

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Another factor facing the School District is the rising cost of health benefits. The School District has projected an increase of 10% in the next year. Other factors include cost of gas to heat the buildings and the cost of fuel for school buses to transport students.

Many non-controllable factors will determine the financial future of the School District such as the stability of the economy, inflation, enrollment projections and the impact of the federal and state legislation, "No Child Left Behind", and the State's ability to maintain or increase educational funding.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, 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 questions about this report or need additional financial information, contact the Treasurer's office at the Batavia Local School District, 800 Bauer Avenue, Batavia, Ohio 45103.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 1,760,715	254,527	2,015,242
Receivables:			
Taxes	7,638,515	-	7,638,515
Accounts	4,861	3,156	8,017
Intergovernmental	-	23,528	23,528
Interest	11	-	11
Supplies inventory	-	8,908	8,908
Prepays	21,373	-	21,373
Restricted cash and investments	78,607	-	78,607
Nondepreciable capital assets	1,230,447	-	1,230,447
Depreciable capital assets, net	<u>10,612,941</u>	<u>39,304</u>	<u>10,652,245</u>
Total assets	<u>21,347,470</u>	<u>329,423</u>	<u>21,676,893</u>
Liabilities:			
Accounts payable	172,421	111	172,532
Accrued wages and benefits	1,196,800	39,918	1,236,718
Intergovernmental payable	307,373	18,473	325,846
Deferred revenue	5,938,706	-	5,938,706
Accrued interest payable	26,499	-	26,499
Noncurrent liabilities:			
Due within one year	585,813	726	586,539
Due within more than one year	<u>7,602,052</u>	<u>6,212</u>	<u>7,608,264</u>
Total liabilities	<u>15,829,664</u>	<u>65,440</u>	<u>15,895,104</u>
Net Assets:			
Invested in capital assets, net of related debt	4,368,739	39,304	4,408,043
Restricted for:			
Debt service	1,525,093	-	1,525,093
Other purposes	125,331	-	125,331
Unrestricted	<u>(501,357)</u>	<u>224,679</u>	<u>(276,678)</u>
Total net assets	<u>\$ 5,517,806</u>	<u>263,983</u>	<u>5,781,789</u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 6,528,578	14,531	174,042	16,695	\$ (6,323,310)	-	(6,323,310)
Special education	2,326,395	-	757,151	-	(1,569,244)	-	(1,569,244)
Adult/continuing	114,623	-	-	-	(114,623)	-	(114,623)
Support services:							
Pupil	351,619	-	1,719	-	(349,900)	-	(349,900)
Instructional staff	544,864	-	5,051	-	(539,813)	-	(539,813)
Board of Education	97,994	-	-	-	(97,994)	-	(97,994)
Administration	1,459,782	-	-	-	(1,459,782)	-	(1,459,782)
Fiscal	375,557	-	-	-	(375,557)	-	(375,557)
Operation and maintenance of plant	1,191,682	-	10,717	-	(1,180,965)	-	(1,180,965)
Pupil transportation	1,218,663	-	-	16,743	(1,201,920)	-	(1,201,920)
Central	1,681	-	-	-	(1,681)	-	(1,681)
Non-instructional services:							
Extracurricular activities	464,140	112,619	-	-	(351,521)	-	(351,521)
Interest on long-term debt	367,367	-	-	-	(367,367)	-	(367,367)
Total Governmental Activities	<u>15,042,945</u>	<u>127,150</u>	<u>948,680</u>	<u>33,438</u>	<u>(13,933,677)</u>	<u>-</u>	<u>(13,933,677)</u>
Business-Type Activities:							
Food Service	492,989	310,597	237,541	-	-	55,149	55,149
Uniform School Supplies	<u>85,536</u>	<u>129,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,400</u>	<u>44,400</u>
Total Business-Type Activities	<u>578,525</u>	<u>440,533</u>	<u>237,541</u>	<u>-</u>	<u>-</u>	<u>99,549</u>	<u>99,549</u>
	\$ <u>15,621,470</u>	<u>567,683</u>	<u>1,186,221</u>	<u>33,438</u>	<u>(13,933,677)</u>	<u>99,549</u>	<u>(13,834,128)</u>
General Revenues:							
Property taxes, levied for general purposes					6,203,181	-	6,203,181
Property taxes, levied for debt services					1,056,344	-	1,056,344
Grants and entitlements not restricted to specific programs					7,282,649	-	7,282,649
Investment earnings					50,825	-	50,825
Miscellaneous					719,382	-	719,382
Total general revenues					<u>15,312,381</u>	<u>-</u>	<u>15,312,381</u>
Change in net assets					1,378,704	99,549	1,478,253
Net assets beginning of year, restated					<u>4,139,102</u>	<u>164,434</u>	<u>4,303,536</u>
Net assets end of year					\$ <u>5,517,806</u>	<u>263,983</u>	<u>5,781,789</u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 281,296	1,297,723	181,696	1,760,715
Restricted cash	78,607	-	-	78,607
Receivables:				
Taxes	6,592,316	1,046,199	-	7,638,515
Accounts	2,567	-	2,294	4,861
Accrued interest	11	-	-	11
Prepays	21,373	-	-	21,373
Total assets	<u>6,976,170</u>	<u>2,343,922</u>	<u>183,990</u>	<u>9,504,082</u>
Liabilities:				
Accounts payable	167,498	-	4,923	172,421
Accrued wages and benefits	1,158,867	-	37,933	1,196,800
Intergovernmental payable	302,219	-	5,154	307,373
Compensated absences payable	9,148	-	-	9,148
Deferred revenue	5,341,716	828,999	-	6,170,715
Total liabilities	<u>6,979,448</u>	<u>828,999</u>	<u>48,010</u>	<u>7,856,457</u>
Fund Balances:				
Reserved for:				
Encumbrances	61,019	-	30,063	91,082
Budget stabilization	78,607	-	-	78,607
Property taxes	1,250,600	217,200	-	1,467,800
Prepays	21,373	-	-	21,373
Unreserved, reported in:				
General Fund	(1,414,877)	-	-	(1,414,877)
Debt Service Fund	-	1,297,723	-	1,297,723
Special Revenue Funds	-	-	105,917	105,917
Total fund balances	<u>(3,278)</u>	<u>1,514,923</u>	<u>135,980</u>	<u>1,647,625</u>
Total liabilities and fund balances	<u>\$ 6,976,170</u>	<u>2,343,922</u>	<u>183,990</u>	<u>9,504,082</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances		\$ 1,647,625
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.		11,843,388
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		232,009
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	6,235,000	
Compensated absences	704,068	
Lease-purchase agreement	1,188,578	
Capital lease payable	51,071	
Accrued interest payable	26,499	
Total		(8,205,216)
 Net Assets of Governmental Activities		 \$ 5,517,806

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 6,142,043	1,053,380	-	7,195,423
Tuition and fees	14,531	-	-	14,531
Interest	50,825	-	-	50,825
Intergovernmental	7,196,027	103,365	965,375	8,264,767
Other local revenues	677,923	-	154,078	832,001
Total revenues	<u>14,081,349</u>	<u>1,156,745</u>	<u>1,119,453</u>	<u>16,357,547</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,058,431	-	191,208	6,249,639
Special education	1,633,258	-	717,563	2,350,821
Other instruction	117,193	-	-	117,193
Support services:				
Pupil	356,344	-	8,656	365,000
Instructional staff	539,387	-	18,531	557,918
Board of Education	97,994	-	-	97,994
Administration	1,508,946	-	34,832	1,543,778
Fiscal	382,322	-	542	382,864
Operation and maintenance of plant	1,153,633	-	10,717	1,164,350
Pupil transportation	1,309,366	-	-	1,309,366
Central	681	-	1,000	1,681
Non-instructional services:				
Extracurricular activities	269,862	-	117,988	387,850
Capital outlay	7,916	-	21,008	28,924
Debt Service:				
Principal	123,868	375,000	-	498,868
Interest and fiscal charges	32,624	336,337	-	368,961
Total expenditures	<u>13,591,825</u>	<u>711,337</u>	<u>1,122,045</u>	<u>15,425,207</u>
Excess of revenues over (under) expenditures	<u>489,524</u>	<u>445,408</u>	<u>(2,592)</u>	<u>932,340</u>
Other financing sources (uses):				
Proceeds from lease-purchase agreement	228,000	-	-	228,000
Total other financing sources (uses):	<u>228,000</u>	<u>-</u>	<u>-</u>	<u>228,000</u>
Net change in fund balance	717,524	445,408	(2,592)	1,160,340
Fund balance, beginning of year, restated	(720,802)	1,069,515	138,572	487,285
Fund balance, end of year	\$ <u>(3,278)</u>	<u>1,514,923</u>	<u>135,980</u>	<u>1,647,625</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	1,160,340
<p>Amounts reported for governmental activities in the statement of activities are different because</p> <p>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.</p>		
Capital outlay		236,639
Depreciation expense		(680,444)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		375,000
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		123,868
Proceeds from long-term debt, such as lease-purchase agreements provides current financial resources to governmental funds but has no effect on net assets		(228,000)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1,594
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		325,605
Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.		<u>64,102</u>
Change in Net Assets of Governmental Activities	\$	<u><u>1,378,704</u></u>

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2005

	<u>Nonmajor Enterprise Funds</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 254,527
Receivables:	
Accounts	3,156
Intergovernmental	23,528
Supplies inventory	<u>8,908</u>
Total current assets	<u>290,119</u>
Noncurrent assets:	
Capital assets, net	<u>39,304</u>
Total assets	<u>329,423</u>
Liabilities:	
Current liabilities:	
Accounts payable	111
Accrued wages	39,918
Intergovernmental payable	<u>18,473</u>
Total current liabilities	<u>58,502</u>
Noncurrent liabilities:	
Compensated absences	<u>6,938</u>
Total liabilities	<u>65,440</u>
Net Assets:	
Invested in capital assets, net of related debt	39,304
Unrestricted	<u>224,679</u>
Total net assets	<u>\$ 263,983</u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2005

	Nonmajor Enterprise Funds
Operating revenues:	
Charges for services	\$ <u>440,533</u>
Operating expenses:	
Salaries and wages	153,670
Fringe benefits	89,587
Contractual services	7,139
Materials and supplies	316,115
Depreciation	<u>7,804</u>
Total operating expenses	<u>578,525</u>
Operating loss	(137,992)
Nonoperating revenues:	
Operating grants	236,196
Interest income	<u>1,345</u>
Total nonoperating revenues	<u>237,541</u>
Net income	99,549
Net assets, beginning of year	<u>164,434</u>
Net assets, end of year	\$ <u><u>263,983</u></u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2005

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities:	
Cash received from customers	\$ 438,505
Cash payments for personal services	(272,380)
Cash payments for contract services	(7,139)
Cash payments for supplies and materials	(273,976)
Cash payments for other expenses	<u>(4,210)</u>
Net cash used by operating activities	<u>(119,200)</u>
Cash flows from noncapital financing activities:	
Cash received from operating grants	<u>162,677</u>
Cash flows from investing activities:	
Investment income	<u>1,345</u>
Net increase in cash and cash equivalents	44,822
Cash and cash equivalents at beginning of year	<u>209,705</u>
Cash and cash equivalents at end of year	\$ <u><u>254,527</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(137,992)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	7,804
Donated commodities used	49,991
Changes in assets and liabilities:	
Accounts receivable	(2,028)
Accounts payable	(5,113)
Supplies inventory	(2,739)
Accrued wages and benefits	2,325
Intergovernmental payable	(18,090)
Compensated absences payable	<u>(13,358)</u>
Net cash used by operating activities	\$ <u><u>(119,200)</u></u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Net Assets

Fiduciary Funds

June 30, 2005

	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Equity in pooled cash and cash equivalents	\$ 25,590	29,505
Total assets	<u>25,590</u>	<u>29,505</u>
LIABILITIES		
Accounts payable	165	-
Due to student groups	-	29,505
Total liabilities	<u>165</u>	<u>29,505</u>
NET ASSETS		
Held in trust	\$ <u>25,590</u>	

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2005

	<u>Private Purpose Trusts</u>
Additions:	
Contributions	\$ 16,618
Interest	<u>153</u>
Total additions	<u>16,771</u>
Deductions:	
Community gifts, awards and scholarships	<u>22,681</u>
Total deductions	<u>22,681</u>
Change in net assets	(5,910)
Net assets, beginning of year	<u>31,500</u>
Net assets, end of year	<u>\$ <u>25,590</u></u>

See accompanying notes to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Batavia Local School District (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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict GASB pronouncements. The School District has elected not to follow subsequent private-sector guidance. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected Board of Education (five members) and is responsible for the education of the residents of the School District. The Board controls the School District's four instructional support facilities providing education to approximately 1,900 students.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District.

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

The School District is associated with four organizations, two of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include Hamilton Clermont Cooperative Association/Unified Purchasing Association, the Great Oaks Institute of Technology and Career Development, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 12 and 13 to the basic financial statements.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

B. Basis of Presentation

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 financials activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements Fund financial statements report detailed information about the School District. The focus of governmental and proprietary financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total assets.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

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

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

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

Proprietary funds are used to account for the School District's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost of providing goods and services to the general public be financed or recovered primarily through user charges. The School District has no major proprietary funds.

Fiduciary Funds report on net assets and changes in net assets. The School District's fiduciary funds consist of a private-purpose trust fund and agency funds. The School District's only private-purpose trust fund accounts for scholarship programs for students. These assets are not available for the School District's use. 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.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made. The modified accrual basis of accounting is used by the governmental funds and agency funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

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 except for unmatured principal and interest on general long-term debt as well as expenditures related to compensated absences which are recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, proprietary funds and private-purpose trust fund utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2005, which are intended to finance fiscal year 2006 operations, have been 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.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

Estimated Resources. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements. During fiscal year 2005, the School District's investments were limited to certificates of deposit.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. At June 30, 2005, the fair value of investments approximates cost.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those funds individually authorized by Board resolution. Interest is allocated to these funds based on average monthly cash balance.

For purposes of the statement of cash flows, the proprietary funds' portion of equity in pooled cash and cash equivalents is considered to be liquid because the proprietary fund portion of the pool can be accessed without prior notice or penalty.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

G. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. Prepays

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

I. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type columns in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

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

Buildings	50 years
Land improvements	15 years
Building improvements	20 years
Equipment and furniture other than vehicles	3-20 years
Vehicles	10 years

J. Compensated Absences

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

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

L. Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, prepaids, and budget reserve set-asides.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

M. Restricted Assets

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

N. Net Assets

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

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Estimates

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

2. CHANGE IN ACCOUNTING PRINCIPLES/PRIOR PERIOD ADJUSTMENT

The School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk and outlines disclosure requirements.

The School District has implemented GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*. The Technical Bulletin clarifies the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other postemployment benefit plans. The implementation of GASB Technical Bulletin 2004-2 had the following effect on fund balances previously reported:

	General <u>Fund</u>
Fund balance at June 30, 2004 as previously reported	\$ (613,482)
Implementation of GASB Technical Bulletin 2004-2	<u>(107,320)</u>
Fund balance at June 30, 2004, restated	\$ <u><u>(720,802)</u></u>

A capital lease obligation entered into during 2003 was not reported in the financial statements for the year ended June 30, 2004. A prior period adjustment was made to correct this understatement of liabilities:

Governmental activities net assets - June 30, 2004	\$ 4,211,619
Correction of capital lease payable	<u>(72,517)</u>
Governmental activities net assets - June 30, 2004, restated	\$ <u><u>4,139,102</u></u>

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

3. DEPOSITS

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

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the 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 has identified as not required for use within the current two 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 that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
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6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. However, protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the financial institution holding the deposits. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific financial institution. At year-end, \$2,153,867 of the School District's bank balance of \$2,258,864 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true 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. Tangible personal property taxes paid 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.

The School District receives property taxes from the Clermont County Auditor, who 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, 2005 are available to finance fiscal year 2005 operations. Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005, was \$1,250,600 in the General Fund and \$217,200 in the Debt Service Fund. The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 159,751,330	82.01%	167,759,780	80.69%
Public Utility	6,969,420	3.58%	7,468,150	3.59%
Tangible Personal Property	28,070,551	14.41%	32,685,077	15.72%
Total Assessed Value	\$ 194,791,301	100.00%	207,913,007	100.00%
Tax rate per \$1,000 of assessed valuation		\$50.80		\$55.00

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

5. CAPITAL ASSETS

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

	Balance 7/1/04	Additions	Disposals	Balance 6/30/05
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ 1,230,447	-	-	1,230,447
Depreciable:				
Land improvements	2,936,525	-	-	2,936,525
Buildings and improvements	13,499,491	-	-	13,499,491
Equipment and furniture	688,207	8,639	(6,819)	690,027
Vehicles	1,632,115	228,000	-	1,860,115
Subtotal	<u>18,756,338</u>	<u>236,639</u>	<u>(6,819)</u>	<u>18,986,158</u>
Totals at historical cost	<u>19,986,785</u>	<u>236,639</u>	<u>(6,819)</u>	<u>20,216,605</u>
Less accumulated depreciation:				
Land improvements	1,289,092	134,691	-	1,423,783
Buildings and improvements	5,143,479	385,560	-	5,529,039
Equipment and furniture	551,660	16,013	(6,819)	560,854
Vehicles	715,361	144,180	-	859,541
Total accumulated depreciation	<u>7,699,592</u>	<u>680,444</u>	<u>(6,819)</u>	<u>8,373,217</u>
Capital assets, net	<u>\$ 12,287,193</u>	<u>(443,805)</u>	<u>-</u>	<u>11,843,388</u>

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 437,299
Support services:	
Instructional staff	2,062
Operation and maintenance of plant	16,569
Pupil transportation	144,180
Extracurricular activities	<u>80,334</u>
Total depreciation expense	<u>\$ 680,444</u>

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

	Balance 7/1/04	Additions	Disposals	Balance 6/30/05
<i>Business-type Activities:</i>				
Furniture and equipment	\$ 130,641	-	-	130,641
Less accumulated depreciation	83,533	7,804	-	91,337
Capital assets, net	\$ 47,108	(7,804)	-	39,304

Depreciation expense of \$7,804 was charged to the food services segment.

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with commercial carriers for property and fleet insurance, liability insurance and inland marine coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage in the last year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). 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.

For fiscal year 2005, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 13), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

7. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to SERS, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were approximately \$258,000, \$276,000, and \$260,000 respectively. Approximately 47% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability within the respective funds and on the government-wide financial statements.

State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
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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.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were approximately \$935,000, \$980,000, and \$929,000, respectively. Approximately 83% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is recorded as a liability in the respective funds.

Social Security System

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. Members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

8. POSTEMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2005, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$67,000 during fiscal year 2005. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254.8 million and STRS had 115,395 eligible benefit recipients.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400.

The surcharge rate added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care for the year ended June 30, 2004 were \$178.2 million and the target level was \$238.2 million. At June 30, 2004, SERS' net assets available for payment of health care benefits was \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, was approximately \$63,000 during the 2005 fiscal year.

9. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components 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 do not earn vacation time. All employees earn sick leave at the rate of 1.25 days per month. Sick leave may be accumulated up to maximum of 240 days for teachers, 225 days for classified staff and unlimited days for administrators. Upon retirement, payment is made for 25% of the employee's accumulated sick leave up to a maximum of 60 days for teachers and administrators, and 45 for classified employees.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

10. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Principal Outstanding 7/1/04	Additions	Reductions	Principal Outstanding 6/30/05	Amounts Due in One Year
<i>Governmental Activities:</i>					
General obligation bonds	\$ 6,610,000	-	(375,000)	6,235,000	390,000
Lease-purchase agreements	1,063,000	228,000	(102,422)	1,188,578	99,747
Capital lease payable	72,517	-	(21,446)	51,071	22,756
Compensated absences	1,029,673	64,162	(380,619)	713,216	73,310
Total	8,775,190	292,162	(879,487)	8,187,865	585,813
<i>Business-type Activities:</i>					
Compensated absences	\$ 20,296	726	(14,084)	6,938	726

Batavia Junior High School Addition General Obligation Bonds - In 1998, the School District issued \$9,150,000 in voted general obligation bonds for the purpose of an addition and improvements to the junior high school building. The bonds were issued for a 25-year period paying 3.5-13.9% interest with final maturity at December 1, 2022 and will be retired from the Debt Service Fund.

In 2002, 2003 and 2005, the School District entered into lease-purchase agreements for the purchase of land for a bus garage and the purchase of buses, respectively. The School District is leasing the land and buses from Rickenbacker Port Authority which assigned U.S. Bank as trustee and transferred rights, title and interest in the land and buses to the trustee. The School District is required to make monthly payments with interest at a variable interest rate based on the TBMA Index. The leases are renewable annually and expire in 2007, 2013 and 2009, respectively. The School District intends to renew the lease annually. Payments will be made from the General Fund.

Capital assets acquired by these lease-purchase agreements have been capitalized in the amount of \$1,444,000 which is equal to the present value of the future minimum lease payments at the time of the acquisition. A corresponding liability was recorded for the lease-purchase agreements.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$18,661,100 with an unvoted debt margin of \$207,913 at June 30, 2005.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

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

Fiscal Year <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 390,000	302,940	692,940
2007	127,214	562,536	689,750
2008	109,013	575,737	684,750
2009	95,140	589,610	684,750
2010	84,250	605,500	689,750
2011-2015	1,024,383	2,413,101	3,437,484
2016-2020	2,520,000	900,000	3,420,000
2021-2023	<u>1,885,000</u>	<u>163,266</u>	<u>2,048,266</u>
Total	\$ <u>6,235,000</u>	<u>6,112,690</u>	<u>12,347,689</u>

The following is a schedule of future minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2005:

Fiscal Year <u>Ending June 30,</u>	
2006	\$ 130,111
2007	291,911
2008	124,451
2009	123,251
2010	71,450
2011-13	<u>567,150</u>
Total	1,308,324
Less amount representing interest	<u>(119,746)</u>
Present value of minimum lease payments	\$ <u>1,188,578</u>

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

11. CAPITALIZED LEASES

The School District is obligated under certain leases accounted for as capital leases. The cost of the equipment acquired by capital leases is \$109,000. The future minimum lease payments under capital leases as of June 30, 2005 are as follows:

	Fiscal Year <u>Ending June 30,</u>	
	2006	\$ 25,176
	2007	25,176
	2008	<u>4,187</u>
Total		54,539
Less amount representing interest		<u>(3,468)</u>
Present value of minimum lease payments		<u>\$ 51,071</u>

12. JOINTLY GOVERNED ORGANIZATIONS

The Hamilton Clermont Cooperative Association

The School District is a participant in a two-county consortium of school districts that operate the Hamilton/Clermont Cooperative Association (H/CCA). H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. The School District paid approximately \$35,000 for services provided during the fiscal year. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati 45231.

The Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, 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 district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Great Oaks. To obtain financial information, write to Great Oaks at 3254 East Kemper Road, Cincinnati, Ohio 45241.

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

13. INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an 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 Director 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.

The Clermont County Health Trust

The Clermont County Health Trust (the Trust), an insurance purchasing pool, is a health trust formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. The School District pays premiums to a third party administrator which in turns buys the insurance policies from various insurance companies. Upon termination, the School District shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The School District may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P. O. Box 526, Middletown, Ohio 45042.

14. CONTINGENCIES

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, 2005.

Litigation

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

BATAVIA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2005

15. REQUIRED SET-ASIDES

The School District is required by State Statute to annually set aside in the general fund an amount based on the 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. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District.

The following cash basis information describes the change in the year-end set aside amounts for textbooks, capital acquisition, 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 balance as of June 30, 2004	\$	(16,414)	-	78,607
Current year set-aside requirement		258,219	258,219	-
Less qualifying disbursements and offsets		<u>(278,885)</u>	<u>(258,219)</u>	<u>-</u>
Total		<u>(37,080)</u>	<u>-</u>	<u>78,607</u>
Balance carried to FY2006		<u>(37,080)</u>	<u>-</u>	<u>78,607</u>
Cash balance as of June 30, 2005	\$	<u>-</u>	<u>-</u>	<u>78,607</u>

Since the School District had offsets and qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, these extra amounts may be used to reduce the set aside requirements of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirements of future years.

BATAVIA LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	5,925,000	5,925,000	5,542,539	(382,461)
Tuition and fees	10,500	10,500	14,531	4,031
Interest	35,000	35,000	50,814	15,814
Intergovernmental	7,405,000	7,405,000	7,196,027	(208,973)
Other local revenues	862,000	862,000	697,343	(164,657)
Total revenues	<u>14,237,500</u>	<u>14,237,500</u>	<u>13,501,254</u>	<u>(736,246)</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,312,813	6,152,819	6,152,819	-
Special education	2,032,150	1,529,409	1,529,409	-
Other instruction	171,035	123,642	123,642	-
Support services:				
Pupil	390,903	363,269	363,269	-
Instructional staff	540,889	507,802	507,802	-
Board of Education	100,895	98,198	98,198	-
Administration	1,541,080	1,522,300	1,522,300	-
Fiscal	399,500	384,256	384,256	-
Operation and maintenance of plant	1,280,750	1,173,007	1,173,007	-
Pupil transportation	1,203,447	1,162,128	1,162,128	-
Central	1,000	681	681	-
Non-instructional services:				
Extracurricular activities	290,030	280,039	280,039	-
Capital outlay	100,000	88,625	88,625	-
Total expenditures	<u>14,364,492</u>	<u>13,386,175</u>	<u>13,386,175</u>	<u>-</u>
Excess of revenues over expenditures	(126,992)	851,325	115,079	(736,246)
Other financing sources (uses):				
Other sources	-	1,000	4,118	3,118
Total other financing sources (uses):	<u>-</u>	<u>1,000</u>	<u>4,118</u>	<u>3,118</u>
Excess of revenues and other sources over expenditures and other (uses)	(126,992)	852,325	119,197	(733,128)
Fund balance, beginning of year	125,993	125,993	125,993	
Prior year encumbrances appropriated	53,630	53,630	53,630	
Fund balance, end of year	<u>52,631</u>	<u>1,031,948</u>	<u>298,820</u>	

See accompanying notes to required supplemental information.

BATAVIA LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2005

Note A Budgetary Basis of Accounting

While the District is reporting financial position, results of operations, and changes in fund balances 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 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) 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:

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 717,524
Increase / (decrease):	
Due to revenues	(580,095)
Due to expenditures	259,281
Due to other sources (uses)	(223,882)
Due to encumbrances	<u>(53,631)</u>
Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis	\$ <u>119,197</u>

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
Food Donation	n/a	10.550	\$ 49,991	49,991
National School Lunch Program	LLP4	10.555	<u>154,722</u>	<u>154,722</u>
Total Nutrition Cluster			<u>204,713</u>	<u>204,713</u>
Total U.S. Department of Agriculture			<u>204,713</u>	<u>204,713</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1S1	84.010	349,794	338,924
Special Education - Grants to States	6BSF	84.027	338,823	336,381
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	10,759	9,852
State Grants for Innovative Programs	C2S1	84.298	8,207	6,539
Education Technology State Grants	TJS1	84.318	9,299	4,531
Improving Teacher Quality State Grants	TRS1	84.367	<u>92,136</u>	<u>82,930</u>
Total U.S. Department of Education			<u>809,018</u>	<u>779,157</u>
Total Federal Awards			\$ <u>1,013,731</u>	<u>983,870</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - NUTRITION CLUSTER

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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

To the Board of Education
Batavia Local School District, Ohio:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Batavia Local School District, Ohio (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 14, 2006 wherein we noted that the School District implemented Governmental Accounting Standards Board Statement No. 40 as well as Governmental Accounting Standards Board Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

We also noted certain additional matters that we reported to management of the School District in a separate letter dated July 14, 2006.

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



Cincinnati, Ohio
July 14, 2006



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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

To the Board of Education
Batavia Local School District, Ohio:

Compliance

We have audited the compliance of Batavia Local School District, 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 are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the 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 each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
July 14, 2006

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified that are not considered to be material weaknesses?	no
Noncompliance material to financial statements noted?	yes

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	no
• Reportable condition(s) identified not considered to be material weaknesses?	no
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of major programs:

CFDA 84.027 – Special Education - Grants to States

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

2005-1– Encumbering Compliance

Ohio Revised Code Section, 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Education can authorize the drawing of a warrant. The Board of Education has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the Board of Education upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

In our sample of sixty cash disbursements, we found thirteen disbursements that did not have certification prior to the obligation date and neither of the two exceptions provided above were utilized. Additionally, we found four disbursements where the invoice amounts exceeded the purchase order amounts. Failure to certify the availability of funds and encumber appropriation for the appropriate amount can result in overspending funds and negative cash balances. The Treasurer should certify the availability of funds for expenditures and consider implementing the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Revised Code Section 5705.41(D).

Management's Response: *The School District will review its practices and procedures and implement additional measures to comply with Ohio Revised Code 5705.41(D). The School District will consider using the Then and Now Certificate for amounts of less than \$3000.*

2005-2 Budgetary Compliance

Ohio Revised Code Section 5705.36 states that appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation. During our review of budgetary compliance, we noted one special revenue fund at June 30, 2005 which had appropriations in excess of its certified estimated resources.

Additionally, Ohio Revised Code Section 5705.41(B) restricts the expenditure of money unless it has been appropriated. During our review of budgetary compliance, we noted one special revenue fund at June 30, 2005 and one capital project fund at March 31, 2005 and June 30, 2005 which had expenditures and outstanding encumbrances exceed their respective appropriations.

Management's Response: The School District will implement procedures to make sure that no fund appropriations exceed the certified estimated resources and no fund expenditures and encumbrances exceed appropriations.

Section III - Federal Award Findings and Questioned Costs

None.

BATAVIA LOCAL SCHOOL DISTRICT, OHIO

Schedule of Prior Audit Findings

Year Ended June 30, 2005

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance for major federal programs were reported in the prior year.



**Auditor of State
Betty Montgomery**

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BATAVIA LOCAL SCHOOL DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 17, 2006**