



Mary Taylor, CPA  
Auditor of State



**FINNEYTOWN LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Finneytown Local School District  
Hamilton County  
8916 Fountainbleau Terrace  
Cincinnati, Ohio 45231

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Mary Taylor, CPA**  
Auditor of State

April 26, 2007

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

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

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

Key financial highlights for 2006 are as follows

In total, net assets increased \$1.15 million or 24.2 percent.

General revenues accounted for \$17.40 million in revenue or 81.2 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4.03 million or 18.8 percent of total revenues of \$21.43 million.

Total assets of governmental activities increased by \$1.24 million as taxes receivable increased by \$.71 million and cash and other receivables increased by \$.83 million.

- The District had \$20.29 million in expenses related to governmental activities; only \$4.03 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$17.40 million were adequate to provide for these programs.

As a major fund, the General Fund had \$16.96 million in revenues and \$16.21 million in expenditures. The General Fund's balance increased from \$2.44 to \$3.11 million. This increase can be attributed to the passage of a 7.95 mill operating levy in November 2004.

**Reporting the School District as a Whole**

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

*Statement of Net Assets and the Statement of Activities*

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities in a manner that helps to answer

this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private-sector corporations. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, current property tax laws, student enrollment trends, facility conditions, required educational programs and other factors in arriving at their conclusion regarding the overall health of the District.

In the *Statement of Net Assets* and the *Statement of Activities*, all of the District's programs and services are reported as Governmental Activities.

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

### *Fund Financial Statements*

Analysis of the District's major fund is presented in the fund financial statements. Fund financial reports provide detailed information about the District's major fund – not the District as a whole. The General Fund is the only major fund of the District. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus only on the District's major fund.

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

**Fiduciary Funds** The District maintains two agency funds. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results or operations. The Fiduciary funds are used to account for the financial resources that the District has agreed to hold or manage in an agent or fiduciary capacity.

## **The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole Table 1 provides a summary of the District's net assets for 2006 compared to 2005:



(Table 1)  
Net Assets

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2006</u>	<u>2005</u>	
<b>Assets</b>			
Current and Other Assets	\$16,538,068	\$14,994,411	10.29%
Capital Assets	<u>8,524,449</u>	<u>8,825,235</u>	<u>-3.41%</u>
Total Assets	<u>\$25,062,517</u>	<u>\$23,819,646</u>	<u>5.22%</u>
<b>Liabilities</b>			
Long-Term Liabilities	\$8,802,581	\$8,987,696	-2.06%
Other Liabilities	<u>10,376,097</u>	<u>10,095,805</u>	<u>2.78%</u>
Total Liabilities	<u>\$19,178,678</u>	<u>\$19,083,501</u>	<u>0.50%</u>
<b>Net Assets Invested in</b>			
Capital Assets Net of Debt	\$1,316,827	\$1,291,613	1.95%
Restricted	1,440,142	1,472,247	-2.18%
Unrestricted	<u>3,126,870</u>	<u>1,972,285</u>	<u>58.54%</u>
Total Net Assets	<u>\$5,883,839</u>	<u>\$4,736,145</u>	<u>24.23%</u>

Total assets increased \$1.24 million. Equity in pooled cash and investments increased \$.79 million. Taxes receivable increased \$.71 million. Total liabilities increased \$.01 million, resulting in a net asset increase of \$1.15 million.

Table 2 shows the change in net assets for fiscal year 2006. Significant changes include: a decrease in reported Property Tax General Revenue resulting from annual fluctuations in the reporting of taxes available at June 30 by the County Auditor, higher investment income during fiscal year 2006 as reflected in Other General Revenue and a decrease in Capital Grants Program Revenues due to a one-time \$.86 million prior year donation of stadium and track renovation improvements to the District from the Finneytown Education Foundation.

Table 2  
Changes in Net Assets

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2006</u>	<u>2005</u>	
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for Services	\$803,363	\$741,864	8.29%
Operating Grants	3,221,361	2,626,671	2.49%
Capital Grants	5,984	892,018	-99.33%
<b>General Revenue:</b>			
Property Taxes	10,266,987	11,311,194	-9.23%
Grants and Entitlements	6,810,550	7,286,537	0.60%
Other	<u>325,995</u>	<u>153,321</u>	<u>112.62%</u>
Total Revenues	<u>\$21,434,240</u>	<u>\$23,011,605</u>	<u>-6.85%</u>

Table 2  
Changes in Net Assets – (continued)

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>	<u>% Change</u>
Program Expenses:			
Instruction	9,701,473	9,356,876	3.68%
Support Services:			
Pupil and Instructional Staff	2,652,072	2,701,192	-1.82%
School Administrative, General			
Administrative, Fiscal and Business	2,122,234	1,801,285	17.82%
Operations and Maintenance	1,789,706	1,564,055	14.43%
Pupil Transportation	654,503	618,701	5.79%
Central	267,389	326,005	-17.98%
Operation of Non-Instructional Services	2,014,365	1,997,117	0.86%
Extracurricular Activities	665,505	574,260	15.89%
Interest and Fiscal Charges	<u>419,299</u>	<u>457,035</u>	<u>-8.26%</u>
 Total Expenses	 <u>20,286,546</u>	 <u>19,396,526</u>	 <u>4.59%</u>
 Increase in Net Assets	 <u>\$1,147,694</u>	 <u>\$3,615,079</u>	

### Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes and grants and entitlements comprised seventy-six percent (76%) of the District's revenues for governmental activities.

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

Thus, Ohio districts dependent upon property taxes must periodically return to the voters to maintain a constant level of service in an inflationary environment. Property taxes made up forty-eight percent (48%) of revenue for governmental activities for the District in fiscal year 2006.

Instruction comprises forty-eight percent (48%) of governmental program expenses. Support services expenses were thirty-seven percent (37%) of governmental program expenses. All other expenses, including interest expense, was fifteen percent (15%) of governmental program expenses. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3  
Governmental Activities

	Total Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2006</u>	Net Cost of Services <u>2005</u>
Instruction	\$9,701,473	\$9,356,876	(\$8,507,126)	(\$8,663,973)
Support Services:				
Pupil and Instructional Staff	2,652,072	2,701,192	(2,204,028)	(2,295,448)
Board, Administration, Fiscal and Business	2,122,234	1,801,285	(1,843,534)	(1,591,168)
Operations and Maintenance	1,789,706	1,564,055	(1,757,814)	(1,537,803)
Pupil Transportation	654,503	618,701	(610,544)	(610,858)
Central	267,389	326,005	(243,959)	(297,332)
Operation Non-Instruction Services	2,014,365	1,997,117	(182,782)	(124,235)
Extracurricular Activities	665,505	574,260	(486,752)	441,879
Interest and Fiscal Charges	<u>419,299</u>	<u>457,035</u>	<u>(419,299)</u>	<u>(457,035)</u>
<b>Total Expenses</b>	<b><u>\$20,286,546</u></b>	<b><u>\$19,396,526</u></b>	<b><u>(\$16,255,838)</u></b>	<b><u>(\$15,135,973)</u></b>

### The District's Funds

Information about the District's major funds start on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$20,987,636 and expenditures and other financing uses of \$20,382,752. The net change in fund balance for the year was \$604,884. This increase was primarily due to the impact of the activities of the General Fund, which are discussed in the next section.

In Ohio, property taxes are not permitted to grow with inflation. New property tax revenues can only be generated through new construction or voted increases. The District is 99% developed; consequently the possibility of new construction is low.

### General Fund Budgeting Highlights

General Fund excess of revenues over expenditures amounted to \$742,511. This surplus is attributable to the passage of a 7.95 mill operating levy in November 2004 and the implementation of a fiscal responsibility plan designed to significantly curtail the growth of General Fund spending. A major component of the fiscal responsibility plan has been the right-sizing of the district's staffing levels in response to declining student enrollment. Since fiscal year 2003, staffing levels totals have been reduced from 247 to 223 full time equivalent staff.

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

During the course of fiscal 2006, the District amended its general fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, the actual budget basis revenue was \$17,101,211, with an original budget estimate of \$16,960,652. The difference of \$140,559 represents a variance of less than 1%.

The District's ending General Fund unobligated cash balance at \$2,442,321 was \$550,246 higher than the original budgeted amount.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2006, the District had \$8.83 million invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

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

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Land	\$732,202	\$732,202
Buildings and Improvements	5,788,878	6,075,248
Furniture and Equipment	1,988,902	2,003,318
Construction in Progress	<u>14,467</u>	<u>14,467</u>
Total Net Assets	<u>\$8,524,449</u>	<u>\$8,825,235</u>

District net capital assets decreased by \$.30 million in fiscal year 2006. The District reported \$.20 million in acquisitions, recognized \$.50 million in depreciation expense and retired \$.18 million in capital assets during the year. This District is committed to maintaining and improving its capital assets.

**Debt**

At June 30, 2006, the District had \$7,020,000 in general obligation bonds and \$669,000 in capital lease obligations outstanding. The amount due within one year on these obligations totals \$182,000. Table 5 summarizes total outstanding debt.

Table 5  
Outstanding Debt, at Year End

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
General Obligation Bonds: 1997 School Improvement	\$7,020,000	\$7,310,000
Capital Lease Obligations	<u>669,000</u>	<u>\$705,000</u>
Total Debt Outstanding	<u>\$7,689,000</u>	<u>\$8,015,000</u>

In 1997 the District passed a 3.96 mill bond issue, providing \$8.7 million for renovation of all buildings through out the district.

At June 30, 2006, the District's overall legal debt margin was \$21,487,320 with an unvoted debt margin of \$238,748. The District maintains an A bond rating.

## **For the Future**

Externally, the Ohio Supreme Court found the State of Ohio in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns.

In an effort to compete for business with other states, Ohio has enacted several pieces of legislation in recent years which impact the District's local tax-generated revenue stream. HB66, the Budget Bill in effect for the current biennium, continues this trend. House Bill 66 phases out the tax on the tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by 2009, and the tax on telephone and telecommunications property will be eliminated by 2011. The tax is phased out by reducing the assessment rate on the property each year. At the same time, the bill replaces the revenue lost due to phasing out the tax. In the first five years, school districts are fully reimbursed for the lost revenue; in the following seven years, the reimbursements are phased out. This legislation will have an adverse impact on the district's local tax revenue generation abilities.

The State of Ohio provides significant revenue to the District through its Foundation program, which funds the District on a per pupil basis. The District has experienced a steady and consistent decline in student enrollment for the last nine years. This decline is predicted to modestly continue in future years of the District's five year forecast. Lower enrollment combined with modifications to the Foundation program funding (i.e. phase-out of the Cost of Doing Business Factor) are expected to significantly limit growth in the District's state Foundation program revenues for the next several years.

The District is working very hard to control expenditure growth. In November 2004, District voters approved a 7.95 mill operating levy. At the same time, the District adopted a fiscal responsibility plan designed to contain future growth in expenditures at an average annual growth not to exceed 2%. In combination with the fiscal responsibility plan, this levy, which generates an additional \$1,650,000 in revenue annually, is expected to last four years.

Eighty-three percent of the District's general fund is spent on employee salary and benefit costs. The District has implemented programs to reduce staff through reorganization and attrition in an attempt to balance staff to the projected decline in student population.

With continued careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Oliverio, Treasurer at Finneytown Local School District, 8916 Fontainebleau Terrace, Cincinnati, Ohio 45231 or e-mail at [doliverio@finneytown.org](mailto:doliverio@finneytown.org).

Finneytown Local School District  
Statement of Net Assets  
June 30, 2006

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$3,594,354
Investment with Fiscal Agent	495,256
Receivables:	
Taxes	12,178,542
Accounts	10,910
Intergovernmental	251,672
Inventory	7,334
Nondepreciable Capital Assets	746,669
Depreciable Capital Assets, Net	<u>7,777,780</u>
<b>Total Assets</b>	<b><u>25,062,517</u></b>
Liabilities:	
Accounts Payable	86,474
Accrued Wages and Benefits	2,915,729
Accrued Interest Payable	34,357
Unearned Revenue	7,339,537
Long-Term Liabilities:	
Due Within One Year	422,542
Due In More Than One Year	<u>8,380,039</u>
<b>Total Liabilities</b>	<b><u>19,178,678</u></b>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,316,827
Restricted for:	
Special Revenue	568,097
Debt Service	703,741
Capital Projects	168,304
Unrestricted	<u>3,126,870</u>
<b>Total Net Assets</b>	<b><u>\$5,883,839</u></b>

See accompanying notes to the Basic Financial Statements.

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
<b>Instruction:</b>					
Regular	\$7,060,547	\$155,070	\$43,491	\$0	(\$6,861,986)
Special	2,130,873	97	962,976	0	(1,167,800)
Vocational	289,351	0	32,713	0	(256,638)
Other	220,702	0	0	0	(220,702)
<b>Support Services:</b>					
Pupil	1,249,936	0	376,192	0	(873,744)
Instructional Staff	1,402,136	0	71,852	0	(1,330,284)
General Administration	20,949	0	0	0	(20,949)
School Administration	1,410,578	50,049	228,651	0	(1,131,878)
Fiscal	456,871	0	0	0	(456,871)
Business	233,836	0	0	0	(233,836)
Operations and Maintenance	1,789,706	25,192	6,700	0	(1,757,814)
Pupil Transportation	654,503	0	37,975	5,984	(610,544)
Central	267,389	0	23,430	0	(243,959)
Operation of Non-Instructional Services	2,014,365	394,202	1,437,381	0	(182,782)
Extracurricular Activities	665,505	178,753	0	0	(486,752)
Interest and Fiscal Charges	419,299	0	0	0	(419,299)
<b>Totals</b>	<b>\$20,286,546</b>	<b>\$803,363</b>	<b>\$3,221,361</b>	<b>\$5,984</b>	<b>(\$16,255,838)</b>

**General Revenues:**

Property Taxes Levied for:

General Purposes	9,448,745
Debt Service Purposes	581,616
Capital Projects Purposes	236,626
Grants and Entitlements not Restricted to Specific Programs	6,810,550
Investment Earnings	198,327
Other Revenues	127,668

**Total General Revenues** 17,403,532

**Change in Net Assets** 1,147,694

**Net Assets Beginning of Year** 4,736,145

**Net Assets End of Year** \$5,883,839

See accompanying notes to the Basic Financial Statements.



Finneytown Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in Pooled Cash and Investments	\$2,442,317	\$1,152,037	\$3,594,354
Investment with Fiscal Agent	0	495,256	495,256
<b>Receivables:</b>			
Taxes	11,361,453	817,089	12,178,542
Accounts	10,910	0	10,910
Intergovernmental	122,717	128,955	251,672
Interfund	2,250	0	2,250
Inventory	0	7,334	7,334
<b>Total Assets</b>	<b>13,939,647</b>	<b>2,600,671</b>	<b>16,540,318</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts Payable	8,349	78,125	86,474
Accrued Wages and Benefits	2,804,852	110,877	2,915,729
Compensated Absences	223,937	0	223,937
Interfund Payable	0	2,250	2,250
Deferred Revenue	7,791,453	522,827	8,314,280
<b>Total Liabilities</b>	<b>10,828,591</b>	<b>714,079</b>	<b>11,542,670</b>
<b>Fund Balances:</b>			
Reserved for Encumbrances	0	208,185	208,185
Reserved for Inventory	0	7,334	7,334
Reserved for Property Tax Advances	3,570,000	314,000	3,884,000
<b>Unreserved, Undesignated, Reported in:</b>			
General Fund	(458,944)	0	(458,944)
Special Revenue Funds	0	357,058	357,058
Debt Service Funds	0	465,367	465,367
Capital Projects Funds	0	534,648	534,648
<b>Total Fund Balances</b>	<b>3,111,056</b>	<b>1,886,592</b>	<b>4,997,648</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$13,939,647</b>	<b>\$2,600,671</b>	<b>\$16,540,318</b>

See accompanying notes to the Basic Financial Statements.

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

---

Total Governmental Fund Balance		\$4,997,648
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.		8,524,449
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	955,005	
Intergovernmental	<u>19,738</u>	
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(889,644)</u>	(889,644)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(7,689,000)</u>
Net Assets of Governmental Activities		<u>\$5,883,839</u>

See accompanying notes to the Basic Financial Statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$8,964,770	\$787,418	\$9,752,188
Tuition and Fees	122,218	6,197	128,415
Investment Earnings	169,541	28,786	198,327
Intergovernmental	7,597,450	2,424,486	10,021,936
Extracurricular Activities	0	205,505	205,505
Charges for Services	0	394,202	394,202
Other Revenues	101,995	109,433	211,428
<b>Total Revenues</b>	<b>16,955,974</b>	<b>3,956,027</b>	<b>20,912,001</b>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	6,690,277	87,947	6,778,224
Special	1,823,992	294,040	2,118,032
Vocational	281,520	0	281,520
Other	220,702	0	220,702
<b>Support Services:</b>			
Pupil	807,577	428,775	1,236,352
Instructional Staff	1,290,410	97,779	1,388,189
General Administration	20,949	0	20,949
School Administration	1,276,378	2,422	1,278,800
Fiscal	446,110	11,442	457,552
Business	234,588	0	234,588
Operations and Maintenance	1,731,268	16,679	1,747,947
Pupil Transportation	632,193	163	632,356
Central	226,944	21,517	248,461
Operation of Non-Instructional Services	118,708	1,819,349	1,938,057
Extracurricular Activities	411,847	236,763	648,610
Capital Outlay	0	333,733	333,733
<b>Debt Service:</b>			
Principal Retirement	0	326,000	326,000
Interest and Fiscal Charges	0	420,496	420,496
<b>Total Expenditures</b>	<b>16,213,463</b>	<b>4,097,105</b>	<b>20,310,568</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>742,511</b>	<b>(141,078)</b>	<b>601,433</b>
<b>Other Financing Sources (Uses):</b>			
Proceeds from Sale of Capital Assets	3,451	0	3,451
Transfers In	0	72,184	72,184
Transfers (Out)	(72,184)	0	(72,184)
<b>Total Other Financing Sources (Uses)</b>	<b>(68,733)</b>	<b>72,184</b>	<b>3,451</b>
<b>Net Change in Fund Balance</b>	<b>673,778</b>	<b>(68,894)</b>	<b>604,884</b>
<b>Fund Balance Beginning of Year (Restated)</b>	<b>2,437,278</b>	<b>1,955,486</b>	<b>4,392,764</b>
<b>Fund Balance End of Year</b>	<b>\$3,111,056</b>	<b>\$1,886,592</b>	<b>\$4,997,648</b>

See accompanying notes to the Basic Financial Statements.

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

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Net Change in Fund Balance - Total Governmental Funds \$604,884

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

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

Capital assets used in governmental activities	201,621	
Depreciation Expense	<u>(496,853)</u>	(295,232)

Governmental funds only report the disposal of assets to the  
 extent proceeds are received from the sale. In the statement  
 of activities, a gain or loss is reported for each disposal. The  
 amount of the proceeds must be removed and the gain or loss  
 on the disposal of capital assets must be recognized. This is the  
 amount of the difference between the proceeds and the gain or loss.

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

Delinquent Property Taxes	508,383	
Intergovernmental	<u>15,959</u>	524,342

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

In the statement of activities interest expense is accrued when incurred,  
 whereas in governmental funds an interest expenditure is reported  
 when due. ,19'

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

Compensated Absences	<u>(7,943)</u>	
		<u>(7,943)</u>

Change in Net Assets of Governmental Activities \$1,147,694

See accompanying notes to the Basic Financial Statements.

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>Revenues:</b>				
Taxes	\$9,054,730	\$9,125,987	\$9,129,770	53,783
Tuition and Fees	121,213	122,167	122,218	51
Investment Earnings	168,148	169,471	169,541	70
Intergovernmental	7,521,079	7,580,267	7,583,409	3,142
Other Revenues	95,482	96,233	96,273	40
<b>Total Revenues</b>	<b>16,960,652</b>	<b>17,094,125</b>	<b>17,101,211</b>	<b>7,086</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	6,863,110	6,693,473	6,693,473	0
Special	1,815,160	1,770,294	1,770,294	0
Vocational	285,422	278,367	278,367	0
Other	217,287	211,916	211,916	0
<b>Support Services:</b>				
Pupil	843,725	822,870	822,870	0
Instructional Staff	1,333,617	1,300,654	1,300,654	0
General Administration	21,305	20,778	20,778	0
School Administration	1,196,314	1,166,744	1,166,744	0
Fiscal	446,645	435,605	435,605	0
Business	240,028	234,095	234,095	0
Operations and Maintenance	1,789,554	1,745,321	1,745,321	0
Pupil Transportation	643,926	628,010	628,010	0
Central	242,889	236,885	236,885	0
Operation of Non-Instructional Services	123,608	120,553	120,553	0
Extracurricular Activities	419,187	408,826	408,826	0
<b>Total Expenditures</b>	<b>16,481,777</b>	<b>16,074,391</b>	<b>16,074,391</b>	<b>0</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>478,875</b>	<b>1,019,734</b>	<b>1,026,820</b>	<b>7,086</b>
<b>Other financing sources (uses):</b>				
Proceeds from Sale of Capital Assets	3,423	3,450	3,451	
Advances In	12,328	12,425	12,430	5
Advances (Out)	(13,842)	(13,500)	(13,500)	0
Transfers (Out)	(74,013)	(72,184)	(72,184)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(72,104)</b>	<b>(69,809)</b>	<b>(69,803)</b>	
<b>Net Change in Fund Balance</b>	<b>406,771</b>	<b>949,925</b>	<b>957,017</b>	<b>7,092</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>1,485,304</b>	<b>1,485,304</b>	<b>1,485,304</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$1,892,075</b>	<b>\$2,435,229</b>	<b>\$2,442,321</b>	<b>\$7,092</b>

See accompanying notes to the Basic Financial Statements.

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

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	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$39,395</u>
Total Assets	<u>\$39,395</u>
Liabilities:	
Other Liabilities	<u>39,395</u>
Total Liabilities	<u>\$39,395</u>

See accompanying notes to the Basic Financial Statements.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

The Finneytown Local School District (the "District") is a political body incorporated for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Finneytown Local School District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. Total enrollment as of October 1, 2005 was 1,709. The District employed 132 certificated employees and 122 non-certificated employees. The District operated 5 schools – Brent Elementary (grades K-2), Cottonwood Elementary (grades 3-4), Whitaker Elementary (grades 5-6), Finneytown Middle School (grades 7-8), and Finneytown High School (grades 9-12).

Management believes the financial statements included in this report represent all of the funds of the District for which the Board of Education is financially accountable.

**Reporting Entity**

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

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

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

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

# FINNEYTOWN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

### **A. Basis of Presentation**

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

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

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government. Fiduciary funds are not included in entity-wide statements.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

#### **Fund Financial Statements**

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

### **B. Fund Accounting**

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



## FINNEYTOWN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

#### **Governmental Funds**

Governmental funds are those through which most governmental functions of the School District are financed. 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 General Fund is the District's only major governmental fund:

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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the District account for grants and other resources, debt service, and capital projects of the District whose uses are restricted to a particular purpose.

#### **Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are classified as trust funds and agency funds. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds include the student managed activity fund and a district agency for a school-related support organization.

### **C. Measurement Focus**

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

Government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities reports increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Fiduciary funds are not included in entity-wide statements.

#### **Fund Financial Statements**

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fiduciary Funds are reported using the economic resources measurement focus

**D Basis of Accounting**

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

**Revenues – Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available for advance, grants and investment earnings.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

**Deferred Revenue**

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

Property taxes for which there is an enforceable legal claim as of fiscal year end, but which were levied to finance subsequent fiscal year operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Unearned Revenue**

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

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**E. Cash and Cash Equivalents**

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

During fiscal year 2006, the School District's investments consisted of federal agency and instrumentality securities, State Treasury Asset Reserve of Ohio (STAROhio), First American Government Obligation Money Market Fund and IXIS Funding Corporation Investment Agreement. The money market fund and investment agreement are reported at fair value, which is based on current share prices.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

During 2006, the District held monies to be used for the construction of a new bus garage / maintenance building. These monies are presented in the financial statements as "Investments With Fiscal Agents".

Following Ohio statutes, the District allocates interest earnings to funds as prescribed by Board resolution and required by law. Interest revenue during fiscal year 2006 amounted to \$198,327.

**F. Inventory**

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

**G. Capital Assets**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand dollars (\$2,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings	40 years
Building Improvements	20 years
Equipment	5 - 20 years

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

**H. Restricted Assets**

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

**I. Compensated Absences**

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

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

For governmental fund financial statements, the compensated absences is the amount due and payable. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	20-25 days per year depending on length of service	10-20 days per year depending upon length of service
Maximum Accumulation	Not Applicable	Do not accumulate; 6 month grace period; Payout up to 5days/yr. unused	Three times annual award
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Paid upon termination	Paid upon termination

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

<u>Sick Leave</u> How Earned	<u>Certified</u> 1 1/4 days per month of employment (15 days per year)	<u>Administrators</u> 1 1/4 days per month of employment (15 days per year)	<u>Non-Certificated</u> 1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	230 days	230 days	230 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	¼ paid upon retirement; ½ paid if 1 <sup>st</sup> year of retirement eligible	¼ paid upon retirement; ½ paid if 1 <sup>st</sup> year of retirement eligible	¼ paid upon retirement; ½ paid if 1 <sup>st</sup> year of retirement eligible

**J. Net Assets**

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

**K. Fund Balance Reserves and Designations**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**L. Interfund Activity**

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

**M. Fund Equity**

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

**NOTE 3 - CASH AND INVESTMENTS**

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

Bonds, and other obligations of the State of Ohio

The Ohio State Treasurer's investment pool (STAR Ohio)

Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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



**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, the carrying amount of the district's deposits was \$2,235,883 and the bank balance was \$2,543,390. Federal depository insurance covered \$100,000 of the bank balance and \$2,443,390 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments

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

<u>Investment Type</u>	<u>Book Value</u>	<u>Aggregate Credit Risk</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	\$729,955	39%	0.00
Federal Home Loan Mortgage Corp.(FHLMC)	\$69,849	4%	0.00
Federal National Mortgage Assoc.(FNMA)	\$198,000	10%	0.07
Federal Home Loan Bank (FHLB)	\$397,000	21%	0.53*
First American Government Obligation Fund CL Y	\$15,406	1%	0.00
IXIS Funding Corp. Investment Agreement	\$479,850	25%	0.00
Total Fair Value	\$1,890,060	100%	0.60

These securities have various call dates. The District believes no securities will be called

The First American Government Obligation Fund and IXIS Funding Corporation (formerly CDC Funding Corporation) Investment Agreement total \$495,256 and represent an Investment with Fiscal Agent being held for a future capital lease construction project.

Interest rate risk

It is the District's policy to manage its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio, by matching investment maturities to scheduled obligations and by maintaining desired liquidity objectives.

Credit risk

It is the District's policy to limit its investments, that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government, to investments which are rated at the time of purchase in the highest classification established by at least two (2) nationally recognized statistical rating organizations. The District's investments in STAR Ohio and First American Government Obligations were rated AAAM by Standard & Poors. The District's investment in IXIS Funding Corporation, FHLMC, FNMA and FHLB were rated AAA by Standard & Poors.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Custodial credit risk

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

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

**NOTE 4 - PROPERTY TAXES**

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

Tangible personal property tax is assessed on equipment and inventory held by businesses. Tangible property was formerly assessed at 25 percent of true value (as defined). House Bill 66, approved in 2005, phases out the tax on the tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by 2009, and the tax on telephone and telecommunications property will be eliminated by 2011. The tax is phased out by reducing the assessment rate on the property each year. At the same time, the bill replaces the revenue lost due to phasing out the tax. In the first five years, school districts are fully reimbursed for the lost revenue; in the following seven years, the reimbursements are phased out.

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

The Hamilton County Auditor remits portions of the taxes collected to all taxing districts with periodic settlements of real and public utility property taxes in February and August and tangible

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**NOTE 4 - PROPERTY TAXES (Continued)**

personal property taxes in June and October. The District records billed but uncollected property taxes as receivables at their estimated net realizable value.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2006. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$3,570,000 for the General Fund, \$225,000 for the Bond Retirement Fund and \$89,000 for the Permanent Improvement Fund, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2006 operations. The amount available as an advance at June 30, 2005, was \$3,735,000 for the General Fund, \$260,000 for the Bond Retirement Fund and \$90,000 for the Permanent Improvement Fund, and is recognized as revenue, with a corresponding reserve to fund balance since the Board did not appropriate these receivables for fiscal year 2005 operations.

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

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$229,980,640
Public Utility Personal	5,666,110
Tangible Personal Property	<u>3,101,250</u>
Total	<u>\$238,748,000</u>

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2006, consisted of taxes, accounts (student fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

**NOTE 6 - CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Government Activities</b>				
<i>Capital assets not being depreciated.</i>				
Land	732,202	\$0	\$0	\$732,202
Construction in Progress	<u>14,467</u>	<u>0</u>	<u>0</u>	<u>14,467</u>
Subtotal	746,669	0	0	746,669
<i>Capital assets being depreciated:</i>				
Buildings & Improvements	12,670,861	14,134	0	12,684,995
Equipment	<u>3,593,654</u>	<u>188,078</u>	<u>(181,579)</u>	<u>3,600,153</u>
Subtotal	16,264,515	202,212	(181,579)	16,285,148
<b>Totals at Historical Cost</b>	<u>\$17,011,184</u>	<u>\$202,212</u>	<u>(\$181,579)</u>	<u>\$17,031,817</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Less Accumulated Depreciation:</i>				
Buildings & Improvements	6,595,613	300,504	0	6,896,117
Equipment	<u>1,590,336</u>	<u>196,349</u>	<u>(175,434)</u>	<u>1,611,251</u>
<b>Total Accumulated Depreciation</b>	<u>\$8,185,949</u>	<u>\$496,853*</u>	<u>(\$175,434)</u>	<u>\$8,507,368</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$8,825,235</u>	<u>(\$294,641)</u>	<u>(\$6,145)</u>	<u>\$8,524,449</u>

\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$77,126
Special	4,114
Vocational	1,455
Support Services:	
Pupil	149
Instructional Staff	419
School Administration	553
Business	2,631
Operations and Maintenance	269,312
Pupil Transportation	36,335
Central	17,690
Community Services	68,391

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

**NOTE 6 - CAPITAL ASSETS (Continued)**

Extracurricular Activities	<u>18,678</u>
Total Depreciation Expense	<u>\$496,853</u>

**NOTE 7 - LEGAL DEBT MARGIN**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The effects of these debt limitations at June 30, 2006, are a voted debt margin of \$21,487,320 and an unvoted debt margin of \$238,748.

The bond issue is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Payment of principal and interest relating to this liability is recorded as an expenditure in the Debt Service Fund.

**NOTE 8 - LONG-TERM LIABILITIES**

	<u>Maturity Dates</u>	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>						
General Obligation Bonds:						
School Improvement 1997 5.68%	12/01/24	\$7,310,000	\$ 0	\$290,000	\$7,020,000	\$145,000
Total General Obligation Bonds		<u>7,310,000</u>	<u>0</u>	<u>290,000</u>	<u>7,020,000</u>	<u>145,000</u>
Compensated Absences		972,696	140,885	0	,113,581	240,542
Capital Lease Obligations		<u>705,000</u>	<u>0</u>	<u>36,000</u>	<u>669,000</u>	<u>37,000</u>
Total General Long-Term Obligations		<u>\$8,987,696</u>	<u>\$ 140,885</u>	<u>\$326,000</u>	<u>\$8,802,581</u>	<u>\$422,542</u>

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid. Capital lease obligations will be paid from the permanent improvement fund.

The District's Board of Education has approved a Retirement Assistance Plan. Participation is open to employees that agree to retire at the end of the school year in which they first become eligible (as determined by the retirement system). Employees that qualify will receive a severance per diem stipend of fifty percent (50%) of accumulated unused sick leave. The year end liability is paid out in two installments—September 2006 and July 2007. Employees not qualifying for the Retirement Assistance Program receive twenty-five percent (25%) of accumulated sick leave paid September 2006. This liability is included in the Compensated Absences portion of the table above.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 8 - LONG-TERM LIABILITIES (Continued)**

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

Fiscal Year <u>Ending June 30,</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	145,000	408,663	553,663
2008	155,000	401,046	556,046
2009	165,000	392,765	557,765
2010	200,000	383,175	583,175
2011	210,000	371,522	581,522
2012-2016	1,420,000	1,623,463	3,043,463
2017-2021	2,200,000	1,074,950	3,274,950
2022-2024	<u>2,525,000</u>	<u>306,095</u>	<u>2,831,095</u>
Totals	<u>\$7,020,000</u>	<u>\$4,961,679</u>	<u>\$11,981,679</u>

**NOTE 9 - CAPITAL LEASES – LESSEE DISCLOSURE**

In fiscal year 2004, the District entered into a lease-purchase agreement for the construction of gymnasium bleachers, a bus garage/maintenance building and middle school elevator. The School District is leasing the project from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. Columbus Regional Airport Authority assigned U.S. Bank as trustee. The lease is renewable annually and expires in 2019. The intention of the District is to renew the lease annually.

The District makes semi-annual lease payments from the Permanent Improvement Fund to U.S. Bank Corporate Trust Services. The trustee entered into an Interest Rate Exchange Agreement with respect to the loan, locking in the rate at 3.745% plus an annual administrative fee not to exceed .15%. In fiscal year 2006, the District made the scheduled principal payment of \$36,000. The principal amount owed on the lease at fiscal year-end is \$669,000.

At fiscal year-end, \$495,256 remains with the trustee for construction yet to be completed on the bus garage/maintenance building. This amount is reported on the financial statements as "Investment with Fiscal Agent".

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

**NOTE 9 - CAPITAL LEASES – LESSEE DISCLOSURE (Continued)**

<u>Fiscal Year Ending June 30,</u>	<u>Total Payments</u>
2007	61,005.10
2008	61,190.40
2009	62,202.00
2010	62,044.95
2011 - 2015	312,617.40
2016 - 2020	<u>314,651.15</u>
Total	\$873,711.00
Less: Amount Representing Interest (3.745%)	(197,040.75)
Less: Additional Program Cost Component (NTE 0.15%)	<u>(7,670.25)</u>
Present Value of Minimum Lease Payments	<u>\$669,000.00</u>

**NOTE 10 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$426,516, \$417,684 and \$376,116 respectively; 50.9% has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**NOTE 10 - PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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



**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 10 - PENSION PLANS (Continued)**

The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,115,748, \$1,153,716 and \$1,079,904 respectively, 83.9 percent has been contributed for fiscal year 2006, and 100 percent for the fiscal years 2005 and 2004. \$179,248 represents the unpaid contribution for fiscal year 2006.

**C. Social Security System**

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

**NOTE 11 - POST EMPLOYMENT BENEFITS**

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 is included in the employer contribution rate, currently 14% of covered payroll. The STRS Ohio Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$791,115 for fiscal year 2006.

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

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**NOTE 11 - POST EMPLOYMENT BENEFITS (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% 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 2006, the minimum pay has been established at \$35,800. For the School District, the amount contributed to fund health care benefits during the 2006 fiscal year equaled \$143,553.

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 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113 and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants receiving health care benefits.

**NOTE 12 - CONTINGENT LIABILITIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

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

**B. Litigation**

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**NOTE 13 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Indiana Insurance for property, boiler and machinery insurance and for general liability insurance.

The District maintains blanket building and contents insurance coverage on its assets with a \$42,290,246 limit of liability and a \$2,500 deductible. Boiler and machinery coverage has a \$1,000 deductible. Vehicles have a \$1,000 deductible for comprehensive and collision and a \$1,000,000 single limited liability.

The District maintains general liability insurance with limits of \$1,000,000 each occurrence, \$2,000,000 aggregate. The District also has \$1,000,000 umbrella liability coverage over both general and automobile liability limits.

Public officials bond insurance is provided by the Ohio Casualty Insurance Company. The Treasurer and Director of Administrative Services are covered by bonds in the amounts \$20,000 each. Treasurer Office and Athletic Department employees are covered by \$5,000 bonds. The Cafeteria manager is covered by a \$3,000 bond.

Settlement amounts have not exceeded insurance coverage for any of the past three fiscal years

For fiscal year 2006 the District provided employee medical/surgical benefits through United HealthCare.

**NOTE 14 - SET-ASIDE CALCULATIONS**

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

For fiscal year ended June 30, 2006, the School District was not required to set aside funds in the budget reserve set-aside.

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**NOTE 14 - SET-ASIDE CALCULATIONS (Continued)**

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2005	\$ 0	\$ 0
Current Year Set-aside Requirement	257,652	257,652
Qualified Disbursements	(311,046)	(265,412)
Current Year Offsets	<u>0</u>	<u>(273,927)</u>
Total	<u>\$ (53,394)</u>	<u>\$(281,687)</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>
Cumulative Surplus Spending Credit		
Carried Forward to FY 2007	<u>\$(744,915)</u>	<u>\$ 0</u>

The cumulative surplus spending credit may be carried forward to offset textbook spending requirements in future fiscal years. In fiscal year 2006, this balance increased from \$691,521 to \$744,915.

**NOTE 15 - INTERFUND TRANSACTIONS**

Interfund transactions at June 30, 2006, consisted of the following individual fund receivables and payables:

Interfund Receivables/Payables:	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
General Fund	\$2,250	
Special Revenue Fund		
IDEA - Part B		\$ 900
Title I - TA		425
Title V		375
Title II-A		<u>590</u>
Total	<u>\$2,250</u>	<u>\$2,250</u>

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE**

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

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

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

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

There was no effect on July 1, 2006 fund balance/net assets as a result of the implementation of these new standards.

**NOTE 17 - BUDGETARY PROCESS**

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

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the

**FINNEYTOWN LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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**NOTE 17 - BUDGETARY PROCESS (Continued)**

entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

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

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

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

	Net Change in Fund Balance <u>General Fund</u>
GAAP Basis	\$ 673,778
Net Adjustment for Revenue Accruals	157,667
Net Adjustment for Expenditure Accruals	125,572
Encumbrances	<u>0</u>
Budget Basis	<u>\$ 957,017</u>

**FINNEYTOWN LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
National School Lunch Program	LL-P4	10.555	\$150,282	\$0	\$150,282	\$0
Food Distribution Program	N/A	10.550	0	22,463	0	22,463
<b>Total U.S. Department of Agriculture</b>			<b>150,282</b>	<b>22,463</b>	<b>150,282</b>	<b>22,463</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Special Education Cluster:</b>						
Special Education Grants to States (Title VI-B)	6B-SF	84.027	599,157	0	609,848	0
IDEA Preschool Grant	PG-S1	84.173	14,192	0	13,012	0
<b>Total Special Education Cluster</b>			<b>613,349</b>	<b>0</b>	<b>622,860</b>	<b>0</b>
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	158,378	0	193,097	0
Safe and Drug Free Schools	DR-S1	84.186	13,686	0	14,099	0
Vocational Ed. Basic Grants to State (Perkins III)	20-C1	84.048	0	0	3,073	0
Advanced Placement Program	AVTF	84.330	624	0	624	0
Hurricane Education Recovery	HR01	84.938	4,000	0	4,000	0
Title VI -- Innovative Education Program Strategies	C2-S1	84.298	8,679	0	9,053	0
Title II-D - Technology Literacy Challenge Fund Grants	TJ-S1	84.318	3,226	0	3,223	0
Improving Teacher Quality	TR-S1	84.367	45,476	0	48,572	0
<b>Total U.S. Department of Education</b>			<b>847,418</b>	<b>0</b>	<b>898,601</b>	<b>0</b>
<b>Totals</b>			<b>\$997,700</b>	<b>\$22,463</b>	<b>\$1,048,883</b>	<b>\$22,463</b>

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

**FINNEYTOWN LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

**NOTE D - MATCHING REQUIREMENTS**

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





# Mary Taylor, CPA

## Auditor of State

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

Finneytown Local School District  
Hamilton County  
8916 Fountainebleau Terrace  
Cincinnati, Ohio 45231

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Finneytown Local School District, Hamilton County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 26, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 26, 2007, we reported other matters related to noncompliance we deemed immaterial.

Finneytown Local School District  
Hamilton County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by Government Auditing Standards  
Page 2

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

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

**Mary Taylor, CPA**  
Auditor of State

April 26, 2007



# Mary Taylor, CPA

## Auditor of State

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

Finneytown Local School District  
Hamilton County  
8916 Fountainebleau Terrace  
Cincinnati, Ohio 45231

To the Board of Education:

#### Compliance

We have audited the compliance of Finneytown Local School District, Hamilton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

#### Internal Control Over Compliance

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

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

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

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

**Mary Taylor, CPA**  
Auditor of State

April 26, 2007

**FINNEYTOWN LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY**

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

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA# 84.027 and 84.173 Special Education Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

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FINNEYTOWN LOCAL SCHOOL DISTRICT  
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	ORC 5705.41 (d). Failure to properly certify expenditures.	Yes	







Mary Taylor, CPA  
Auditor of State

FINNEYTOWN LOCAL SCHOOL DISTRICT

HAMILTON 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  
MAY 10, 2007