

Minerva Local School District

Audited Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Minerva Local School District
401 North Market Street
Minerva, Ohio 44657

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 5, 2007

This Page is Intentionally Left Blank.

**MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2006

Table of Contents

	<i>Page</i>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis.....	3-10
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	17
Statement of Fund Net Assets – Internal Service Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Fund	19
Statement of Cash Flows – Internal Service Fund.....	20
Statement of Fiduciary Assets and Liabilities	21
Notes to the Basic Financial Statements	22-49
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	50

**MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY**

JUNE 30, 2006

*Table of Contents
(Continued)*

	<i>Page</i>
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	51-52
Schedule of Expenditures of Federal Awards	53
Notes to Schedule of Expenditures of Federal Awards	54
Schedule of Findings & Questioned Costs.....	55-56

December 14, 2006

To the Board of Education
Minerva Local School District
Minerva, OH 44657

Independent Auditor's Report

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Minerva Local School District, Stark County, Ohio as of June 30, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective 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 also have issued our report dated December 14, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Minerva Local School District
Independent Accountants' Report
December 14, 2006
Page 2

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

Hea & Associates, Inc.

Minerva Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Revenues accounted for \$15,242,335 in revenue or 32 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$32,359,724 or 68 percent of total revenues of \$47,602,059.
- Total program expenses were \$19,796,287.
- In total, net assets increased \$27,805,772, primarily due to an increase in capital grants and contributions.
- Outstanding bond and note debt decreased from \$13,709,232 to \$13,502,283 through principal payments.

Using this Annual Report

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

A question typically asked about the School District's finances "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

In the Statement of Net Assets and the Statement of Activities, the School District is reported as a governmental activity.

- Governmental Activities - Most of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the classroom facilities fund.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and classroom facilities capital projects fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 13.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Fiduciary Funds – The School District’s only fiduciary fund is for Student Managed Activities. The School District’s fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the School District’s other financial statements because the assets cannot be used by the School District to finance operations.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

The School District as a Whole

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

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

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$ 36,938,985	\$ 8,609,182
Capital Assets	14,388,195	14,974,937
Total Assets	51,327,180	23,584,119
Liabilities		
Long-Term Liabilities	14,986,898	15,108,556
Other Liabilities	8,708,889	8,649,942
Total Liabilities	23,695,787	23,758,498
Net Assets		
Invested in Capital Assets Net of Debt	1,003,727	1,170,601
Restricted	300,037,105	1,858,424
Unrestricted (Deficit)	(3,409,439)	(3,203,404)
Total Net Assets	\$ 297,631,393	\$ (174,379)

Total assets increased by \$27,743,061. This was primarily due to an increase in intergovernmental receivables. A decrease of approximately \$586,742 in total capital assets reflects depreciation exceeding additional purchases. Total liabilities decreased by \$62,711. This decrease was the result of reductions in accounts payable and contracts payable.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006. This table presents two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	Governmental Activities	Governmental Activities
	2006	2005
<i>Revenues</i>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,385,658	\$ 1,280,837
Operating Grants	2,365,419	1,975,215
Capital Grants	28,608,647	20,534
<i>General Revenue:</i>		
Property Taxes	6,353,784	6,175,687
Grants and Entitlements	8,747,283	8,430,219
Other	141,268	177,493
<i>Total Revenues</i>	47,602,059	18,059,985
<i>Program Expenses</i>		
Instruction	11,680,140	11,392,948
Support Services	5,926,983	6,578,445
Operation of Non-Instructional	887,138	757,578
Extracurricular Activities	599,828	584,046
Interest and Fiscal Charges	702,198	773,937
<i>Total Expenses</i>	19,796,287	20,086,954
Increase (Decrease) in Net Assets	\$ 27,805,772	\$ (2,026,969)

Governmental Activities

Information about the School District's major funds starts on page 13.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. General revenues, including tax revenue, investment earnings, and unrestricted state entitlements, support the net cost of program services.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

(Table 3)
Governmental Activities

	Total Cost of Service 2006	Total Cost of Service 2005	Net Cost of Service 2006	Net Cost of Service 2005
Instruction	\$ 11,680,140	\$ 11,392,948	\$ 19,392,330	\$ (9,172,183)
Support Services:				
Pupil and Instructional Staff	1,715,676	2,281,290	(1,682,364)	(2,244,495)
Board of Education, Administration, Fiscal and Business	1,992,244	1,964,947	(1,878,341)	(1,866,506)
Operation and Maintenance of Plant	1,184,975	1,177,384	(1,184,975)	(1,177,384)
Pupil Transportation	941,451	959,401	(930,303)	(938,867)
Central	92,637	195,423	(88,637)	(191,423)
Operation of Non-Instructional Extracurricular Activities	887,138	757,578	(32,639)	(121,611)
Interest and Fiscal Charges	599,828	584,046	(329,436)	(323,962)
	702,198	773,937	(702,198)	(773,937)
Total Expenses	<u>\$ 19,796,287</u>	<u>\$ 20,086,954</u>	<u>\$ 12,563,437</u>	<u>\$ (16,810,368)</u>

Instruction and student support services comprise 68 percent of governmental program expenses. Interest/fiscal charges were 3.6 percent. Interest expense was attributable to the outstanding bonds and lease payments. Pupil transportation and the operation/maintenance of facilities accounts for 11 percent of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Minerva Local School District.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the School District amended its general fund budget two times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue (exclusive of other financing sources) was \$15,850,904, over the original budget estimates of \$14,693,189. Of this \$1,157,715 increase, most was attributable to an increase in intergovernmental revenue.

Final appropriations of \$15,825,404 (exclusive of other financing uses) were \$426,604 higher than the \$15,398,800 in the original budget.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$14,770,814 invested in land, buildings and improvements, furniture, equipment and vehicles. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities	
	2006	2005
Land	\$ 127,797	\$ 127,797
Buildings and Improvements	13,135,401	13,514,183
Furniture and Equipment	778,520	1,010,862
Vehicles	308,780	322,095
Construction in Progress	37,697	0
Totals	\$ 14,388,195	\$ 14,974,937

The \$586,742 decrease in capital assets was attributable to depreciation exceeding additional purchases.

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital acquisitions and an additional 3 percent for textbooks. For fiscal year 2006, this amounted to \$311,671 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital acquisition. For the textbooks, the School District disbursed \$186,818.

Debt

At June 30, 2006, the School District had \$13,502,283 in bonds and notes outstanding with \$330,421 due within one year. During fiscal year 2006, \$9,200,000 of general obligation bonds were issued to refund 2002 classroom facilities bonds. Table 5 summarizes bonds outstanding.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2006	Governmental Activities 2005
Energy Notes	\$ 61,471	\$ 91,261
General Obligation Bonds:		
Various Series Bonds	12,915,000	13,205,000
Various Capital Appreciation Bonds	359,991	294,998
Accretion on Capital Appreciation Bonds	165,821	117,973
Total General Obligation Bonds	13,440,812	13,617,971
Totals	\$ 13,502,283	\$ 13,709,232

Current Issues

The Ohio School Facilities Commission (OSFC) was created in 1997 as an independent agency to direct and oversee the construction of school facilities throughout the State of Ohio. The School District applied to and received permission from the OSFC in January 2001 to participate in the Expedited Local Partnership Program prior to the School District becoming eligible to participate in the OSFC Classroom Facilities Assistance Program (CFAP). On July 13, 2005, the School District was notified that it had been scheduled to participate in the CFAP Program. On July 18, 2005, the Minerva Local Board of Education adopted a resolution authorizing participation in the CFAP Program.

The School District will receive \$28,597,499 in state funds to be used to build a new elementary school and to perform additions and renovations to the high school. The School District is currently working with the OSFC and architects to develop the necessary plans and specifications that will permit construction to begin during the summer of 2007. It is anticipated that construction will be complete on the high school and elementary buildings in May and August of 2009, respectively.

The Minerva Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. While the Minerva Local School District continues to show academic improvement, our financial situation has deteriorated. Actions taken by the state legislature are having a negative impact on the financial stability of the district.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). 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 was 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.

Minerva Local School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 33 percent of revenues for governmental activities for the Minerva Local School District in fiscal year 2006.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses while still striving to continue academic success. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education 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. Beginning in fiscal year 2002 the State provided for a new form of funding called parity aid. Parity aid is available to low wealth districts that meet certain conditions. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Minerva Local School District is anticipating only very limited growth in state revenue as the result of more students entering than leaving the district under open enrollment policies. The district is experiencing reduced basic state aid because of the effects of static enrollment and reappraisals of property values. The current state funding formula results in less state funding as the result of reappraisals. Because of the effect of House Bill 920 as noted above increases in property taxes are very limited as the result of reappraisals. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Michael Pence, Treasurer of Minerva Local School District, 401 North Market St., Minerva, Ohio 44657 or mcp1@minerva.stark.k12.oh.us.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,572,155
Receivables:	
Taxes	6,342,070
Accounts	5,074
Intergovernmental	28,782,495
Prepaid Items	12,877
Inventory Held For Resale	14,063
Materials and Supplies	22,110
Deferred Charges	188,141
Nondepreciable Capital Assets	165,494
Depreciable Capital Assets (Net)	<u>14,222,701</u>
 <i>Total Assets</i>	 <u>51,327,180</u>
 Liabilities	
Accounts Payable	101,360
Contracts Payable	138,522
Accrued Wages and Benefits	1,832,694
Accrued Interest	41,481
Intergovernmental Payable	487,106
Matured Compensated Absences Payable	207,795
Deferred Revenue	5,674,111
Claims Payable	125,720
Early Retirement Incentive Payable	100,100
Long-Term Liabilities:	
Due Within One Year	385,278
Due Within More Than One Year	<u>14,601,620</u>
 <i>Total Liabilities</i>	 <u>23,695,787</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	1,003,727
Restricted for:	
Capital Projects	29,337,905
Debt Service	416,544
Other Purposes	160,633
Set Asides	122,023
Unrestricted	<u>(3,409,439)</u>
 <i>Total Net Assets</i>	 <u>\$ 27,631,393</u>

The accompanying notes are an integral part of the financial statements.

MINERVA 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
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 9,450,875	\$ 783,311	\$ 211,053	\$ 28,597,499	\$ 20,140,988
Special	2,125,147	0	1,480,607	0	(644,540)
Vocational	99,511	0	0	0	(99,511)
Adult/Continuing	4,607	0	0	0	(4,607)
Support Services:					
Pupils	960,485	0	29,387	0	(931,098)
Instructional Staff	755,191	0	3,925	0	(751,266)
Board of Education	67,245	0	0	0	(67,245)
Administration	1,382,586	0	7,094	0	(1,375,492)
Fiscal	463,530	0	106,809	0	(356,721)
Business	78,883	0	0	0	(78,883)
Operation and Maintenance of Plant	1,184,975	0	0	0	(1,184,975)
Pupil Transportation	941,451	0	0	11,148	(930,303)
Central	92,637	0	4,000	0	(88,637)
Operation of Non-Instructional Services:					
Food Service	861,976	328,431	481,369	0	(52,176)
Community Services	25,162	13,989	30,710	0	19,537
Extracurricular Activities	599,828	259,927	10,465	0	(329,436)
Interest and Fiscal Charges	702,198	0	0	0	(702,198)
Total Governmental Activities	\$ 19,796,287	\$ 1,385,658	\$ 2,365,419	\$ 28,608,647	12,563,437
General Revenues					
Property Taxes Levied for:					
General Purposes					5,598,265
Debt Service					755,519
Grants and Entitlements not Restricted to Specific Programs					8,747,283
Investment Earnings					66,408
Miscellaneous					74,860
Total General Revenues					15,242,335
Change in Net Assets					27,805,772
Net Assets Beginning of Year					(174,379)
Net Assets End of Year					\$ 27,631,393

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 16,682	\$ 920,769	\$ 510,877	\$ 1,448,328
Restricted Cash and Cash Equivalents	122,023	0	0	122,023
Receivables:				
Taxes	5,593,361	0	748,709	6,342,070
Accounts	3,299	0	1,775	5,074
Interfund	1,024	0	0	1,024
Intergovernmental	20,568	28,597,499	164,428	28,782,495
Prepaid Items	12,877	0	0	12,877
Inventory Held For Resale	0	0	14,063	14,063
Materials and Supplies	22,110	0	0	22,110
<i>Total Assets</i>	<u>\$ 5,791,944</u>	<u>\$ 29,518,268</u>	<u>\$ 1,439,852</u>	<u>\$ 36,750,064</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 30,609	\$ 41,841	\$ 28,910	\$ 101,360
Contracts Payable	0	138,522	0	138,522
Accrued Wages and Benefits	1,714,291	0	118,403	1,832,694
Interfund Payable	185,000	0	1,024	186,024
Intergovernmental Payable	458,047	0	29,059	487,106
Matured Compensated Absences Payable	207,795	0	0	207,795
Deferred Revenue	5,203,713	28,597,499	735,469	34,536,681
Early Retirement Incentive Payable	93,670	0	6,430	100,100
<i>Total Liabilities</i>	7,893,125	28,777,862	919,295	37,590,282
Fund Balances				
Reserved for Encumbrances	46,902	112,153	4,856	163,911
Reserved for Prepaids	12,877	0	0	12,877
Reserved for Property Taxes	389,648	0	51,972	441,620
Reserved for Textbooks and Instructional Materials	122,023	0	0	122,023
Unreserved, Undesignated Reported in:				
General Fund	(2,672,631)	0	0	(2,672,631)
Special Revenue Funds	0	0	84,313	84,313
Debt Service Fund	0	0	379,416	379,416
Capital Projects Funds	0	628,253	0	628,253
<i>Total Fund Balances</i>	<u>(2,101,181)</u>	<u>740,406</u>	<u>520,557</u>	<u>(840,218)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 5,791,944</u>	<u>\$ 29,518,268</u>	<u>\$ 1,439,852</u>	<u>\$ 36,750,064</u>

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances		\$ (840,218)
----------------------------------	--	--------------

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		14,388,195
--	--	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 28,636,231	
Delinquent Property Taxes	226,339	28,862,570

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		188,141
--	--	---------

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(41,481)
--	--	----------

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		61,084
--	--	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Energy Conservation Notes	(61,471)	
General Obligation Bonds	(12,915,000)	
Capital Appreciation Bonds	(359,991)	
Unamortized Bond Premium	(731,270)	
Refunding Loss	543,122	
Bond Accretion	(165,822)	
Compensated Absences	(1,248,467)	
Capital Lease Payable	(47,999)	(14,986,898)

<i>Net Assets of Governmental Activities</i>		<u><u>\$ 27,631,393</u></u>
--	--	-----------------------------

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 5,602,876	\$ 0	\$ 756,743	\$ 6,359,619
Intergovernmental	9,454,054	0	1,619,756	11,073,810
Investment Income	30,657	35,742	0	66,399
Tuition and Fees	774,964	0	8,347	783,311
Extracurricular Activities	0	0	259,927	259,927
Gifts and Donations	0	0	28,342	28,342
Rentals	13,989	0	0	13,989
Charges for Services	0	0	328,431	328,431
Miscellaneous	74,860	0	0	74,860
<i>Total Revenues</i>	<u>15,951,400</u>	<u>35,742</u>	<u>3,001,546</u>	<u>18,988,688</u>
Expenditures				
Current:				
Instruction:				
Regular	8,254,224	0	233,687	8,487,911
Special	1,430,569	0	744,457	2,175,026
Vocational	120,679	0	0	120,679
Adult/Continuing	4,607	0	0	4,607
Support Services:				
Pupils	938,808	0	19,069	957,877
Instructional Staff	725,817	0	32,336	758,153
Board of Education	67,222	23	0	67,245
Administration	1,352,974	0	21,021	1,373,995
Fiscal	421,544	0	26,003	447,547
Business	78,731	0	150	78,881
Operation and Maintenance of Plant	1,169,539	0	14,580	1,184,119
Pupil Transportation	999,685	0	2,118	1,001,803
Central	1,849	0	3,987	5,836
Operation of Non-Instructional Services:				
Food Services	0	0	834,089	834,089
Community Services	1,813	0	23,349	25,162
Extracurricular Activities	353,936	0	206,234	560,170
Capital Outlay	0	506,906	0	506,906
Debt Service:				
Principal Retirement	47,103	0	254,792	301,895
Interest and Fiscal Charges	1,982	0	666,830	668,812
Issuance Costs	0	0	188,141	188,141
<i>Total Expenditures</i>	<u>15,971,082</u>	<u>506,929</u>	<u>3,270,843</u>	<u>19,748,854</u>
<i>Excess of Revenues Under Expenditures</i>	(19,682)	(471,187)	(269,297)	(760,166)
Other Financing Sources (Uses)				
Refunding Bonds Issued	0	0	9,264,993	9,264,993
Premium on Refunding Bonds Issued	0	0	731,270	731,270
Payment to Refunded Bond Escrow Agent	0	0	(9,808,122)	(9,808,122)
Transfers In	0	0	40,587	40,587
Transfers Out	(40,587)	0	0	(40,587)
<i>Total Financing Sources (Uses)</i>	<u>(40,587)</u>	<u>0</u>	<u>228,728</u>	<u>188,141</u>
<i>Net Change in Fund Balance</i>	(60,269)	(471,187)	(40,569)	(572,025)
<i>Fund Balance (Deficit) Beginning of Year</i>	<u>(2,040,912)</u>	<u>1,211,593</u>	<u>561,126</u>	<u>(268,193)</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (2,101,181)</u>	<u>\$ 740,406</u>	<u>\$ 520,557</u>	<u>\$ (840,218)</u>

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

*Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (572,025)

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Fixed Asset Additions	\$ 198,104	
Current Year Depreciation	(784,846)	(586,742)

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

Grants	28,619,197	
Delinquent Property Taxes	(5,835)	28,613,362

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

Energy Conservation Notes	29,790	
General Obligation Bonds	9,490,000	
Capital Lease	47,103	9,566,893

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The governmental funds report the effects of premiums and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Accrued Interest	14,462	
Accretion on Capital Appreciation Bonds	(47,848)	
Refunding Loss	543,122	
Bond Premium	(731,270)	(221,534)

In statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.

188,141

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.

Proceeds from Refunding Bonds Issued		(9,264,993)
--------------------------------------	--	-------------

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

Vacation Payable	29,152	
Compensated Absences	55,754	84,906

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

(2,236)

Change in Net Assets of Governmental Activities

\$ 27,805,772

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
 General Fund
 For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 6,060,487	\$ 5,485,758	\$ 5,485,758	\$ 0
Intergovernmental	7,894,755	9,513,562	9,479,105	(34,457)
Investment Income	25,533	28,043	30,657	2,614
Tuition and Fees	645,184	772,725	774,662	1,937
Rentals	10,612	12,742	12,742	0
Miscellaneous	56,618	51,380	67,980	16,600
<i>Total Revenues</i>	<u>14,693,189</u>	<u>15,864,210</u>	<u>15,850,904</u>	<u>(13,306)</u>
Expenditures				
Current:				
Instruction:				
Regular	8,077,742	8,353,721	8,366,174	(12,453)
Special	1,106,095	1,150,659	1,150,660	(1)
Vocational	82,048	92,536	92,537	(1)
Adult/Continuing	5,298	4,666	4,666	0
Support Services:				
Pupils	955,163	952,262	952,261	1
Instructional Staff	751,712	749,836	749,834	2
Board of Education	52,358	63,596	63,596	0
Administration	1,328,013	1,351,934	1,351,936	(2)
Fiscal	424,129	423,691	423,691	0
Business	98,436	79,994	79,994	0
Operation and Maintenance of Plant	1,246,095	1,182,014	1,183,838	(1,824)
Pupil Transportation	880,825	975,948	975,947	1
Central	31,832	39,830	39,830	0
Operation of Non-Instructional Services:				
Community Services	2,225	1,813	1,813	0
Extracurricular Activities	356,829	353,819	353,820	(1)
Debt Service:				
Principal Retirement	0	49,085	49,085	0
<i>Total Expenditures</i>	<u>15,398,800</u>	<u>15,825,404</u>	<u>15,839,682</u>	<u>(14,278)</u>
Excess of Revenues Over Expenditures	(705,611)	38,806	11,222	(27,584)
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	6,000	6,121	6,121	0
Transfers In	762,695	638,742	638,742	0
Transfers Out	(864,695)	(676,177)	(679,329)	3,152
<i>Total Other Financing Sources (Uses)</i>	<u>(96,000)</u>	<u>(31,314)</u>	<u>(34,466)</u>	<u>3,152</u>
<i>Net Change in Fund Balance</i>	(801,611)	7,492	(23,244)	(30,736)
<i>Fund Balance Beginning of Year</i>	45,907	45,907	45,907	0
Prior Year Encumbrances Appropriated	47,469	47,469	47,469	0
<i>Fund Balance End of Year</i>	<u>\$ (708,235)</u>	<u>\$ 100,868</u>	<u>\$ 70,132</u>	<u>\$ (30,736)</u>

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2006

	Governmental Activities - Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,804
Receivables:	
Interfund	<u>185,000</u>
<i>Total Assets</i>	<u>186,804</u>
Liabilities	
Claims Payable	<u>125,720</u>
Net Assets	
Unrestricted	<u>\$ 61,084</u>

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service Fund
Operating Expenses	
Other	\$ 2,245
<i>Operating Loss</i>	(2,245)
Non-Operating Revenues	
Interest	9
<i>Change in Net Assets</i>	(2,236)
<i>Net Assets Beginning of Year</i>	63,320
<i>Net Assets End of Year</i>	\$ 61,084

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities	
Cash Paid for Goods and Services	\$ (2,245)
Cash Flows From Investing Activities	
Interest on Investments	9
<i>Net Decrease in Cash and Cash Equivalents</i>	(2,236)
<i>Cash and Cash Equivalents Beginning of Year</i>	4,040
<i>Cash and Cash Equivalents End of Year</i>	\$ 1,804
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	\$ (2,245)
<i>Net Cash Used For Operating Activities</i>	\$ (2,245)

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds

June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 55,077
Liabilities	
Accounts Payable	\$ 530
Due to Students	<u>54,547</u>
<i>Total Liabilities</i>	<u>\$ 55,077</u>

The accompanying notes are an integral part of the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Minerva Local School District (School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of October 1, 2005, was 2,174. The School District employs 154 certificated and 100 non-certificated employees.

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

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

The School District is involved with Stark Portage Area Computer Consortium (SPARCC) and Stark County Joint Vocational School, which are defined as jointly governed organizations. The School District is also involved with the Stark County Schools Council of Governments Health Benefits Plan and the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan, which are defined as public entity risk pools. Additional information concerning these organizations is presented in Notes 18 and 19.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The School 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 School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

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

B. Fund Accounting

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classroom Facilities Capital Projects Fund The classroom facilities capital projects fund accounts for financial resources to be used in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of major capital facilities.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The School District's only proprietary fund is an internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program, which provides medical benefits to employees.

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

C. Measurement Focus

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2006, investments were limited to STAROhio (the State Treasurer's Investment Pool) and Money Market.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$30,657, which includes \$28,744 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Prepaid Items

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

G. Inventory

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional materials and to create a reserve for budget stabilization. See Note 15 for additional information regarding set asides.

I. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from effective interest method.

J. Capital Assets

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

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

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 - 50 Years
Improvements Other Than Buildings	20 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 Years

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Balances

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

L. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB 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 employer will compensate the employees for the benefits through paid time off or some other means.

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities of the internal service fund are reported on the proprietary fund financial statements.

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

N. Bond Premiums

Bond premiums are recorded as another financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Net Assets

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

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

P. Fund Balance Reserves

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

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

Q. Operating Revenues and Expenses

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

R. Interfund Activity

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Extraordinary and Special Items

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

T. Estimates

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

U. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

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 in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate in effect when the final appropriations were passed.

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 3: NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and 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. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

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

The implementation of these GASB statements did not have an effect on the financial statements of the School District.

NOTE 4: FUND DEFICITS AND NON-COMPLIANCE

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

	<u>Deficit</u>
General Fund	\$ 2,101,181
Non-Major Funds:	
Title II-A	1,343
Food Service	72,633
Ohio Reads	34
Athletic	8,326
Management Information Systems	233

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

There were no negative fund balances at year end, however, during the year, the District had several funds in violation of Ohio Rev. Code Section 5705.10.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (60,269)
Net Adjustment for Revenue Accruals	(94,375)
Net Adjustment for Expenditure Accruals	199,975
Adjustment for Encumbrances	<u>(68,575)</u>
Budget Basis	<u>\$ (23,244)</u>

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) JUNE 30, 2006

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$631,685. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$653,313 of the School District's bank balance of \$853,313 was exposed to custodial risk as discussed above, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 Months or Less</u>
STAROhio	\$ 429	\$ 429
Money Market	995,118	995,118
Totals	\$ 995,547	\$ 995,547

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law.

Credit Risk Standard & Poor's has assigned STAROhio an AAA rating.

Concentration of Credit Risk The School District places no limit on the amount that may be invested in any one issuer. At June 30, 2006, 100 percent of the School District's investments were in STAROhio.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 7: RECEIVABLES

Receivables at June 30, 2006 consisted of property taxes, accounts (billings for user charged services, and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year except for the Ohio School Facilities Commission grant.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Major Funds:	
General	\$ 20,568
Classroom Facilities Fund	28,597,499
Nonmajor Funds:	
Idea Part B	63,916
Title I	73,293
Title V	5,636
Safe and Drug Free Schools	1,649
Title IIA	<u>19,934</u>
<i>Total All Funds</i>	<u><u>\$ 28,782,495</u></u>

NOTE 8: PROPERTY TAXES

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

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

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 8: PROPERTY TAXES (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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

The amount available as an advance at June 30, 2006 was \$389,648 in the general fund and \$51,972 in the bond retirement debt service fund. The amount available as an advance at June 30, 2005, was \$272,530 in the general fund and \$37,163 in the bond retirement debt service fund.

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

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

	<u>2005 Second Half Collections</u>		<u>2006 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 135,636,680	70%	\$ 140,374,060	71%
Commercial/Industrial/ Public Utility/Minerals	24,498,180	13%	24,849,310	13%
Tangible Personal Property	<u>32,285,762</u>	<u>17%</u>	<u>30,756,545</u>	<u>16%</u>
Total Assessed Value	<u>\$ 192,420,622</u>	<u>100%</u>	<u>\$ 195,979,915</u>	<u>100%</u>
 Tax Rate per \$1,000 of Assessed Value:				
Columbiana and Stark Counties	<u>\$ 45.00</u>		<u>\$ 43.70</u>	
Carroll County	<u>\$ 44.50</u>		<u>\$ 43.20</u>	

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 9: CAPITAL ASSETS

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

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 127,797	\$ 0	\$ 0	\$ 127,797
Construction in Progress	0	37,697	0	37,697
<i>Total Capital Assets, not being depreciated</i>	127,797	37,697	0	165,494
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	18,056,471	86,590	0	18,143,061
Furniture and Equipment	3,985,735	3,695	0	3,989,430
Vehicles	1,214,836	70,122	(39,777)	1,245,181
<i>Total Capital Assets, being depreciated</i>	23,257,042	160,407	(39,777)	23,377,672
<i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(4,542,288)	(465,372)	0	(5,007,660)
Furniture and Equipment	(2,974,873)	(236,037)	0	(3,210,910)
Vehicles	(892,741)	(83,437)	39,777	(936,401)
<i>Total Accumulated Depreciation</i>	(8,409,902)	(784,846) *	39,777	(9,154,971)
<i>Total Capital Assets being depreciated, net</i>	14,847,140	(624,439)	0	14,222,701
<i>Governmental Activities Capital Assets, Net</i>	\$ 14,974,937	\$ (586,742)	\$ 0	\$ 14,388,195

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 626,453
Support Services:	
Administration	5,318
Fiscal	5,581
Operation and Maintenance of Plant	9,909
Pupil Transportation	86,801
Operation of Non-Instructional Services:	
Food Service Operations	11,126
Extracurricular Activities	39,658
Total Depreciation Expense	\$ 784,846

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 10: LONG-TERM OBLIGATIONS

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

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
<i>Energy Conservation Notes:</i>					
1997 - 6.00% interest rate, maturing August 2007	\$ 40,725	\$ 0	\$ (18,100)	\$ 22,625	\$ 18,100
1999 - 5.25% interest rate, maturing June 2009	<u>50,536</u>	<u>0</u>	<u>(11,690)</u>	<u>38,846</u>	<u>12,321</u>
<i>Total Energy Conservation Notes</i>	91,261	0	(29,790)	61,471	30,421
<i>General Obligation Bonds:</i>					
<i>2002 Classroom Facilities Bonds:</i>					
<i>Series Bonds -</i>					
\$3,715,000 - 3.35%-5.125%	13,205,000	0	(9,490,000)	3,715,000	250,000
<i>Capital Appreciation Bonds -</i>					
\$294,998 - 7.02%	294,998	0	0	294,998	0
<i>Accretion on Capital</i>					
<i>Appreciation Bonds</i>	117,973	47,848	0	165,821	0
<i>2006 Classroom Facilities Bonds:</i>					
<i>Serial and Term Bonds -</i>					
\$9,200,000 - 3.5%-4.35%	0	9,200,000	0	9,200,000	50,000
<i>Capital Appreciation Bonds -</i>					
\$64,993 - 4.15%-4.25%	0	64,993	0	64,993	0
<i>Unamortized Premium</i>	0	731,270	0	731,270	0
<i>Refunding Loss</i>	<u>0</u>	<u>(543,122)</u>	<u>0</u>	<u>(543,122)</u>	<u>0</u>
<i>Total General Obligation Bonds</i>	13,617,971	9,500,989	(9,490,000)	13,628,960	300,000
Capital Lease Payable	95,102	0	(47,103)	47,999	47,999
Compensated Absences	<u>1,304,222</u>	<u>5,947</u>	<u>(61,701)</u>	<u>1,248,468</u>	<u>6,858</u>
Total Governmental Activities					
Long-Term Obligations	<u>\$ 15,108,556</u>	<u>\$ 9,506,936</u>	<u>\$ (9,628,594)</u>	<u>\$ 14,986,898</u>	<u>\$ 385,278</u>

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

Energy conservation notes were issued to provide energy improvements to various buildings.

2002 School Improvement Bonds

On June 1, 2002, Minerva Local School District issued \$14,024,998 in general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amount of \$13,730,000 and \$294,998, respectively. The general obligation bonds were issued for the purpose of constructing and renovating various school holdings within the School District.

The capital appreciation bonds mature December 1, 2011 through December 1, 2012. These bonds were purchased at a substantial discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$880,000. For fiscal year 2006, the accretion amount was \$47,848.

Outstanding general obligation bonds consist of school building construction issues. Such bonds are direct obligations of the School District for which the full faith, credit and resources are pledged and are payable from taxes levied on all taxable property of the School District.

2006 School Improvement Advance Refunding General Obligation Bonds

On June 28, 2006, the School district issued \$9,264,993 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$5,915,000, \$3,285,000 and \$64,993, respectively. The bonds advance refunded \$9,265,000 of outstanding 2002 School Improvement General Obligation Bonds. The bonds were issued for a twenty-three year period with final maturity at December 1, 2029. At the date of refunding, \$9,808,122 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$9,265,000 of the 2002 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The advance refunding reduced cash flows required for debt service by \$753,599 over the next twenty-three years and resulted in an economic gain of \$485,065.

The bonds were issued with a premium of \$731,270, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2006 was \$0. The issuance costs of \$188,141 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2006 was \$0.

The \$9,264,993 bond issuance consists of serial, term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 3.50 to 4.20 percent. The term bonds that mature in fiscal year 2018 with an interest rate of 4.05 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2018, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2018	\$ 45,000
2019	45,000
2020	420,000

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 10: LONG-TERM OBLIGATIONS (Continued)

The term bonds due December 1, 2029 with an interest rate of 4.35 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2027 and on each December 1 thereafter at 100 percent of the principal amount thereof, plus accrued interest to the date of redemption according to the following schedule:

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2028	\$ 885,000
2029	925,000
2030	965,000

The term bonds maturing after December 1, 2016 are subject to optional redemption, in whole or in part, on any date in order of maturity as determined by the School District and by lot within a maturity, at the option of the Board of Education on or after June 1, 2016.

The capital appreciation bonds will mature December 1, 2014 through 2016. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$1,255,000. The fiscal year 2006 accretion amount is \$0.

The energy conservation notes and general obligation bonds will be paid from property tax revenues of the bond retirement debt service fund. Capital lease payments will be paid from the general fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2006 are as follows:

Year Ending	General Obligation Bonds		Capital Appreciation Bonds		Energy Conservation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 300,000	\$ 521,503	\$ 0	\$ 0	\$ 30,421	\$ 2,682	\$ 330,421	\$ 524,185
2008	350,000	538,957	0	0	17,510	1,137	367,510	540,094
2009	375,000	525,532	0	0	13,540	371	388,540	525,903
2010	405,000	510,327	0	0	0	0	405,000	510,327
2011	435,000	493,235	0	0	0	0	435,000	493,235
2012-2016	1,170,000	2,293,427	359,991	1,775,009	0	0	1,529,991	4,068,436
2017-2021	2,490,000	1,903,663	0	0	0	0	2,490,000	1,903,663
2022-2026	3,765,000	1,186,252	0	0	0	0	3,765,000	1,186,252
2027-2030	3,625,000	323,110	0	0	0	0	3,625,000	323,110
Total	<u>\$ 12,915,000</u>	<u>\$ 8,296,006</u>	<u>\$ 359,991</u>	<u>\$ 1,775,009</u>	<u>\$ 61,471</u>	<u>\$ 4,190</u>	<u>\$ 13,336,462</u>	<u>\$ 10,075,205</u>

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 11: CAPITALIZED LEASES – LESSEE DISCLOSURE

The School District entered into a lease agreement for Apple computers. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments reflected as debt service in the basic financial statements for the government funds.

These assets have been capitalized in the governmental capital assets in the amount of \$139,102, the present value of the minimum lease payments at the inception of each lease. A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease.

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:

	<u>Apple Computers</u>
Year ending June 30, 2007	\$ 48,911
Less: amount representing interest	<u>912</u>
Present value of minimum lease payments	<u>\$ 47,999</u>

NOTE 12: PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090 or by visiting the STRS website at www.strsoh.org.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 12: PENSION PLANS (Continued)

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

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

For fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$1,202,088, \$1,092,552 and \$1,125,960, respectively; 82 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. \$216,636, representing the unpaid contribution for fiscal year 2006 is recorded as a liability within the respective funds.

B. School Employees Retirement System

Minerva Local School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5833. It is also posted on SERS' website at www.ohsers.org under forms and publications.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 12: PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57 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. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$346,860, \$317,556 and \$301,296, respectively; 52 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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 School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, all but one members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 13: POSTEMPLOYMENT BENEFITS

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

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. The STRS Ohio Board has discretionary 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.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$100,174 during the 2006 fiscal year.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2005, the health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

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

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease from 4.91 percent for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employee's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$117,476 during the 2006 fiscal year.

Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (the latest information available), the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. SERS has 58,123 participants currently receiving health care benefits.

NOTE 14: INTERFUND TRANSACTIONS

A. Interfund Balances

Interfund balances at June 30, 2006 consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,024	\$ 185,000
Other Governmental Fund:		
Auxiliary Services	0	1,024
Internal Service Fund	185,000	0
Totals	\$ 186,024	\$ 186,024

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

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 14: INTERFUND TRANSACTIONS (Continued)

B. Interfund Transfers

During the fiscal year 2006, the general fund transferred \$40,587 to the food service special revenue fund to cover operating expenses.

NOTE 15: SET-ASIDES

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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

The following cash basis information describes the changes in the year-end set-aside amounts. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Totals
Set-Aside Reserve Balance as of June 30, 2005	\$ 0	\$ 0	\$ 0
Current Year Set-Aside Requirement	311,671	311,671	623,342
Current Year Qualifying Disbursements	(186,818)	(151,800)	(338,618)
Balance Carried Forward from Prior Year	(2,830)	(13,832,555)	(13,835,385)
Total	\$ 122,023	\$ (13,672,684)	\$ (13,550,661)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ 122,023	\$ (13,672,684)	
Set-Aside Reserve Balance as of June 30, 2006	\$ 122,023	\$ 0	

The School District did not have qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero, and is required to establish a fund balance reserve.

The School District had qualifying prior year carryover and disbursements during the fiscal year that reduced the capital acquisition set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements for future years up to the prior year carryover relating to debt.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 16: CONTRACTUAL COMMITMENTS

As of June 30, 2006, the School District had contractual commitments for construction of a new middle school and the renovation of the high school.

	Contractual Commitment	Expended	Balance June 30, 2006
Eslich Wrecking Company	\$ 198,700	\$ 0	\$ 198,700
Precision	192,626	(185,102)	7,524
Total	<u>\$ 391,326</u>	<u>\$ (185,102)</u>	<u>\$ 206,224</u>

NOTE 17: RISK MANAGEMENT

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$5,000 per incident on property and equipment. The School District's comprehensive property and casualty policy aggregate limit is approximately \$44,754,144. The School District's vehicle insurance policy limit is \$1,000,000 with a \$250 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally the School District carries a \$5,000,000 blanket umbrella policy. The limits of this of this coverage are \$2,000,000 per occurrence and \$5,000,000 in aggregate. Claims have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

B. Fidelity Bond

The Board President and Superintendent are covered under surety bonds in the amount of \$25,000. The Treasurer is covered under a surety bond in the amount of \$75,000. In addition, other school employees who are responsible for handling funds are covered under bonds of \$2,000 each.

C. Workers' Compensation

The School District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

JUNE 30, 2006

NOTE 17: RISK MANAGEMENT (Continued)

D. Employee Health Insurance

The School District was self insured for its medical and dental insurance programs until June 30, 2004. Premiums were paid into the self-insurance fund and were available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covered specific liability claims in excess of \$40,000 per covered individual. The claims liability of \$125,720 reported in the Internal Service Fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, to be reported.

Changes in the fund's claims liability for the fiscal years 2006 and 2005 are as follows:

	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance End of Year</u>
2006	<u>\$ 125,720</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125,720</u>
2005	<u>\$ 125,720</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125,720</u>

Effective July 1, 2004, the School District has contracted with Stark County Schools Council of Governments (the "Council") to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the School District by grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one, and a common premium rate is applied to all member districts.

Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The employees share the cost of the monthly premium with the Board. For fiscal year 2006, the School District's monthly premiums were \$810.17 for family coverage and \$333.50 for single coverage. Dental insurance is also provided by the School District to qualified employees through the Stark County Schools Council for Governments. For fiscal year 2006, the School District's cost was \$104.47 for family coverage and \$42.35 for single coverage per employee per month. Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

The School District provided life insurance and accidental death and dismemberment insurance coverage of \$30,000 to all employees through the Stark County Schools Council of Governments Health Benefits Program.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 18: PUBLIC ENTITY RISK POOLS

A. Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefits Program is a shared risk pool. The Council is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly elects officers for two-year terms to serve as the Board of Directors. The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709.

B. Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the superintendents of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the School District by the group with other members of the group. The injury claim history of all participating members are used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS

A. Stark Portage Area Computer Consortium

Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational Service Center and the Portage County Educational Service Center and the Portage County Education Service Center. The purpose of the organization is to apply modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating district is limited to its representation on the assembly, which appoints the five-member executive board. The executive board exercises total control over the operation of SPARCC including budgeting, appropriating, contracting and designating management. The executive board consists of five superintendents. All revenues are generated from State funding and an annual fee charged to participating districts. The School District paid \$42,677 to SPARCC during the fiscal year 2006. The Stark County Educational Service Center is the fiscal agent of SPARCC. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709-2300.

MINERVA LOCAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 19: JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Stark County Joint Vocational School

The Stark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a seven member board, consisting of one representative from each of the six participating school district's elected boards and one board member that rotates from each participating school district. The Stark County Joint Vocational School possesses its own budgeting and taxing authority. To obtain financial information write to the Stark County Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

NOTE 20: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state 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 adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is not party to any claims or lawsuits that would have a material effect on the basic financial statements.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 14, 2006

To the Board of Education
Minerva Local School District
Minerva, OH 44657

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Minerva Local School District (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated December 14, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as item 2006-001. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated December 14, 2006.

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

Rea & Associates, Inc.

December 14, 2006

To the Board of Education
Minerva Local School District
Minerva, OH 44657

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

Hea & Associates, Inc.

**MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Non-Cash Receipts	Federal Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title 1, Part A, ESEA						
Elementary and Secondary Education Act	84.010	C1-S1 2005	\$ 29,361		\$ 50,386	
		C1-S1 2006	237,443		236,297	
Total Title 1, Part A, ESEA			<u>266,804</u>		<u>286,683</u>	
Special Education Grants to States	84.027	6B-SF 2005	0		32,345	
		6B-SF 2006	476,458		456,959	
Total Special Education Grants to States			<u>476,458</u>		<u>489,304</u>	
Innovative Education Program Strategies	84.298	C2-S1 2006	626		0	
Technology Literacy Challenge Grant	84.318	TJ-S1 2005	0		7,043	
		TJ-S1 2006	528		0	
Total Technology Literacy Challenge Grant			<u>528</u>		<u>7,043</u>	
Title II-A Improving Teacher Quality	84.340	CR-S1 2005	12,236		18,820	
		CR-S1 2006	87,107		86,188	
Total Title II-A Grant			<u>99,343</u>		<u>105,008</u>	
Safe, Drug-Free Schools & Communities Act Grant	84.186	DR-S1 2006	9,349		9,349	
Total U. S. Department of Education			<u>853,108</u>		<u>897,387</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program - Community Alternative Funding System (CAFS)	93.778	FY 2005	38,810		38,810	
Medical Assistance Program - State Children's Health Insurance Program (SCHIP)	93.767	FY 2005	5,677		5,677	
Total U.S. Department of Health and Human Services			<u>44,487</u>		<u>44,487</u>	
U. S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Food Distribution Program	10.550	FY06		\$ 80,661		\$ 80,661
Nutrition Cluster:						
National School Breakfast Program	10.553		143,799		137,049	
National School Lunch Program	10.555	LL-P4 2006	241,456		241,456	
Total Nutrition Cluster			<u>385,255</u>		<u>378,505</u>	
Total US Department of Agriculture			<u>385,255</u>	<u>80,661</u>	<u>378,505</u>	<u>80,661</u>
Total Federal Financial Assistance			<u>\$ 1,282,850</u>	<u>\$ 80,661</u>	<u>\$ 1,320,379</u>	<u>\$ 80,661</u>

See accompanying notes to the schedule of expenditures of federal awards

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: NUTRITION CLUSTER

Reimbursement monies are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

Food Distribution Program nonmonetary assistance is not part of the Nutrition Cluster; however, it is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2006, the School District had no significant food commodities inventory.

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS
--

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness Conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control Weakness conditions reported at the Financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-Compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control Weakness conditions reported for major Federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Nutrition Cluster	CFDA # 10.553 CFDA # 10.555
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER	2006-001
-----------------------	-----------------

Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. Although all funds had positive cash fund balances at June 30, 2006, the School District had numerous negative cash fund balances throughout the year. The following funds had negative cash fund balances:

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2006

FINDING NUMBER	2006-001 (Continued)
-----------------------	-----------------------------

Fund	Range of Deficit
General Fund (001)	\$288,309 - \$1,149,629
Food Service Fund (006)	\$30,637 - \$130,845
CFAP Fund (010)	4,548
Schoolnet Professional Grant (452)	2,002
Title VI-B (516)	\$14,274 - \$172,734
Title I (572)	\$3,430 - \$100,765
Drug Free Schools (584)	7,173
Title II-A (599)	\$1,377 - \$39,013
Title XIX (599)	\$599 - \$1,958

Negative fund cash balances indicate that money from one fund was used to cover the expenses of another fund. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

NONE	
------	--

4. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN

NONE	
------	--



Mary Taylor, CPA
Auditor of State

MINERVA LOCAL SCHOOL DISTRICT
STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 15, 2007