

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Monroeville Local School District  
101 West Street  
Monroeville, Ohio 44847

We have reviewed the *Independent Auditor's Report* of the Monroeville Local School District, Huron County, prepared by James G. Zupka, CPA, 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 Monroeville Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 23, 2007

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**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

Board of Education  
Monroeville Local School District  
Huron County  
Monroeville, Ohio 44847-9797

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Monroeville Local School District, Huron County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Monroeville Local School District, Ohio'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*. 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 the significant estimates made by management, as well as the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006, on our consideration of the Monroeville Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 5, 2006

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

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

### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$507,949 which represents a 12.62% decrease from 2005.
- General revenues accounted for \$4,951,762 in revenue or 82.82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,027,217 or 17.18% of total revenues of \$5,978,979.
- The District had \$6,486,928 in expenses related to governmental activities; \$1,027,217 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,951,762 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,109,195 in revenues and other financing sources and \$5,738,733 in expenditures. During fiscal year 2006, the general fund's fund balance decreased \$629,538 from \$2,593,296 to \$1,963,758.

### **Using these Basic Financial Statements**

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

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



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

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**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

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

*Fund Financial Statements*

The analysis of the District's major governmental fund begins on page 16. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

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***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-55 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for fiscal years 2006 and 2005.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

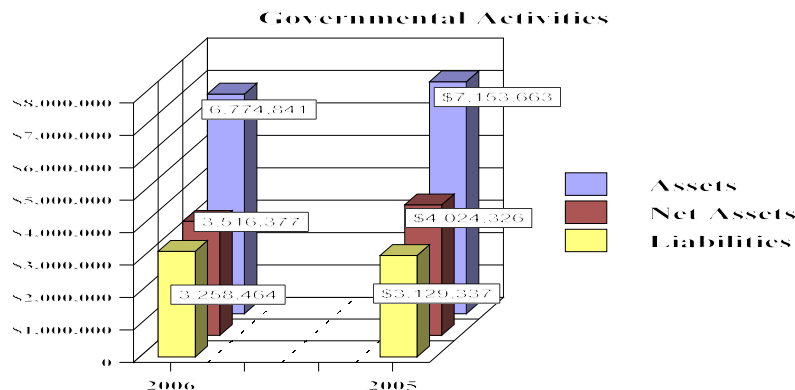
**Table 1 - Net Assets**

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current and Other Assets	\$ 5,136,212	\$ 5,575,323
Capital Assets	1,638,629	1,578,340
<b>Total Assets</b>	<b>6,774,841</b>	<b>7,153,663</b>
<b>Liabilities</b>		
Current Liabilities	2,856,737	2,669,548
Long-Term Liabilities	401,727	459,789
<b>Total Liabilities</b>	<b>3,258,464</b>	<b>3,129,337</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	1,509,356	1,392,237
Restricted	86,760	156,021
Unrestricted	1,920,261	2,476,068
<b>Total Net Assets</b>	<b>\$ 3,516,377</b>	<b>\$ 4,024,326</b>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$3,516,377. Of this total, \$1,920,261 is unrestricted in use.

At year-end, capital assets represented 24.19% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,509,356. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$86,760, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,920,261 may be used to meet the District's ongoing obligations to the students and creditors.



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The table below shows the change in net assets for fiscal years 2006 and 2005.

**Table 2 - Change in Net Assets**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
<b><u>Revenues</u></b>		
Program Revenues:		
Charges for Services and Sales	\$ 507,912	\$ 549,326
Operating Grants and Contributions	509,538	479,996
Capital Grants and Contributions	9,767	16,443
General Revenues:		
Property Taxes	2,218,748	2,468,522
Grants and Entitlements	2,600,313	2,475,495
Investment Earnings	117,908	73,168
Other	14,793	14,263
<b>Total Revenues</b>	<b><u>\$ 5,978,979</u></b>	<b><u>\$ 6,077,213</u></b>
<b><u>Expenses</u></b>		
Program Expenses:		
Instruction:		
Regular	2,867,278	2,750,671
Special	578,523	564,847
Vocational	240,503	216,188
Other	7,402	0
Support Services:		
Pupil	194,910	195,535
Instructional Staff	395,262	378,553
Board of Education	48,790	59,806
Administration	480,826	496,661
Fiscal	229,215	220,230
Business	3,345	5,304
Operation and Maintenance	560,729	543,153
Pupil Transportation	319,576	314,772
Central	6,046	7,259
Operation of Non-Instructional Services:		
Non-Instructional Services	72,074	61,397
Food Service Operations	269,113	251,926
Extracurricular Activities	205,252	208,772
Interest and Fiscal Charges	8,084	11,013
<b>Total Expenses</b>	<b><u>6,486,928</u></b>	<b><u>6,286,087</u></b>
Change in Net Assets	(507,949)	(208,874)
Net Assets at Beginning of Year	<u>4,024,326</u>	<u>4,233,200</u>
<b>Net Assets at End of Year</b>	<b><u>\$3,516,377</u></b>	<b><u>\$ 4,024,326</u></b>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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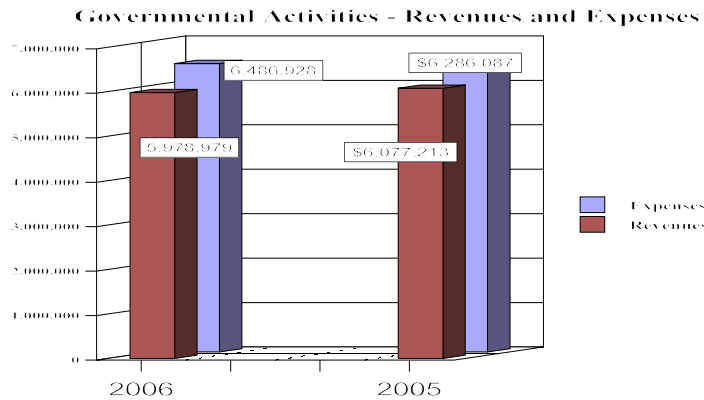
**Governmental Activities**

Net assets of the District's governmental activities decreased \$507,949. Total governmental expenses of \$6,486,928 were offset by program revenues of \$1,027,217 and general revenues of \$4,951,762. Program revenues supported 15.84% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 80.60% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,693,706 or 56.94% of total governmental expenses for fiscal 2006.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



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

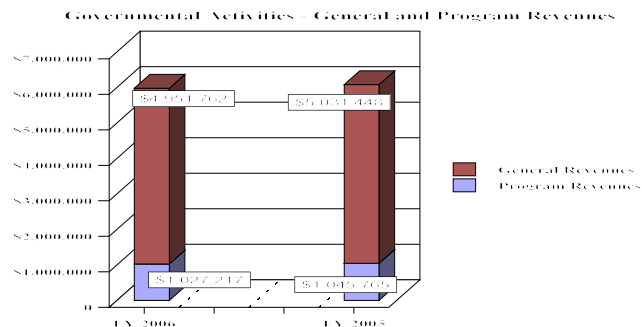
**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

**Table 3 - Charges for Services**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>20006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
<b><u>Program Expenses</u></b>				
Instruction:				
Regular	\$ 2,867,278	\$ 2,544,318	\$ 2,750,671	\$ 2,395,787
Special	578,523	379,226	564,847	378,591
Vocational	240,503	240,503	216,188	216,188
Other	7,402	7,402	0	0
Support Services:				
Pupil	194,910	149,182	195,535	159,981
Instructional Staff	395,262	356,731	378,553	339,513
Board of Education	48,790	48,790	59,806	59,806
Administration	480,826	469,423	496,661	483,188
Fiscal	229,215	226,587	220,230	217,730
Business	3,345	3,345	5,304	5,304
Operation and Maintenance	560,729	550,962	543,153	533,430
Pupil Transportation	319,576	319,576	314,772	314,772
Central	6,046	6,046	7,259	7,259
Operation of Non-Instructional Services:				
Non-Instructional Services	72,074	(6,793)	61,397	(16,131)
Food Service Operations	269,113	9,923	251,926	356
Extracurricular Activities	205,252	146,406	208,772	133,535
Interest and Fiscal Charges	8,084	8,084	11,013	11,013
<b>Total Expenses</b>	<b><u>\$ 6,486,928</u></b>	<b><u>\$ 5,459,711</u></b>	<b><u>\$ 6,286,087</u></b>	<b><u>\$ 5,240,322</u></b>

The dependence upon tax and other general revenues for governmental activities is apparent, 85.86% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.16%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$2,155,265, which is lower than last year's total of \$2,798,980. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	(Decrease)	Percentage Change
General	\$ 1,963,758	\$ 2,593,296	\$ (629,538)	(24.28) %
Other Governmental	191,507	205,684	(14,177)	(6.89)%
<b>Total</b>	<u>\$ 2,155,265</u>	<u>\$ 2,798,980</u>	<u>\$ (643,715)</u>	(23.00)%

**General Fund**

The District's general fund balance decreased \$629,538. The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceeded revenues for fiscal year 2006 by \$631,191. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**Table 4 - Revenues and Expenditures**

	2006	2005	Increase (Decrease)	Percentage Change
<b><u>Revenues</u></b>				
Taxes	\$ 2,109,415	\$ 2,412,182	\$ (302,767)	(12.55)%
Earnings on Investments	107,412	72,011	35,401	49.16 %
Intergovernmental	2,600,313	2,475,495	124,818	5.04 %
Other Revenues	290,402	306,524	(16,122)	(5.26)%
<b>Total Revenues</b>	<u>\$ 5,107,542</u>	<u>\$ 5,266,212</u>	<u>\$ (158,670)</u>	(3.01)%
<b><u>Expenditures</u></b>				
Instruction	\$ 3,389,743	\$ 3,170,302	\$ 219,441	6.92 %
Support Services	2,139,946	2,043,159	96,787	4.74 %
Extracurricular Activities	139,670	135,185	4,485	3.32 %
Facilities Acquisition and Construction	4,460	138,869	(134,409)	(96.79)%
Capital Outlay	0	118,602	(118,602)	(100.00)%
Debt Service	64,914	63,744	1,170	1.84 %
<b>Total Expenditures</b>	<u>\$ 5,738,733</u>	<u>\$ 5,669,861</u>	<u>\$ 68,872</u>	1.21 %

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

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***General Fund Budgeting Highlights***

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

For the general fund, final budgeted revenues and other financing sources were unchanged from original budget revenue of \$5,259,719. Actual revenues and other financing sources for fiscal 2006 was \$5,452,961. This represents a \$193,242 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,005,061 were increased to \$6,027,961 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$5,843,054, which was \$184,907 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$1,638,629 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

**Table 5 - Capital Assets at June 30 (Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 189,859	\$ 167,477
Land Improvements	87,424	73,104
Buildings and Improvements	1,000,675	946,078
Furniture and Equipment	280,337	376,931
Vehicles	80,334	14,750
<b>Total</b>	<b>\$ 1,638,629</b>	<b>\$ 1,578,340</b>

The overall increase in capital assets of \$60,289 is due in part to capital outlays of \$280,473 being greater than depreciation expense of \$210,203 and disposals of \$9,981 (net of accumulated depreciation) in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

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***Debt Administration***

At June 30, 2006, the District had \$84,362 in energy conservation notes outstanding and \$44,911 in capital lease obligations for copier equipment and computers that were capitalized in assets for the amount of \$118,602. Of the outstanding obligations total, \$60,412 is due within one year and \$68,861 is due within greater than one year. The following table summarizes the notes outstanding.

**Table 6 - Outstanding Debt at Year End**

	Governmental Activities	
	2006	2005
Energy Conservation Notes	\$ 84,362	\$ 102,777
Capital Lease Obligation	44,911	83,326
<b>Total</b>	<b>\$ 129,273</b>	<b>\$ 186,103</b>

At June 30, 2005, the District's overall legal debt margin was \$7,167,016, an unvoted debt margin of \$79,634 and an energy conservation debt margin of \$632,340.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District relies on property taxes, entitlements and grants. Tax revenues have increased slightly, state revenues are steady and grants are decreasing. Expenditures are increasing at double the rate of revenue increases. As this trend continues, carryover funds are depleted in the 3rd year of the five-year forecast.

The District has been successful in renewing operating and emergency levies. As the valuation increases, tax on the property owner increases as well. It will become increasingly more difficult to continue the passage of these levies and may be even more difficult when the district will be required to ask for additional funds for the operation of the schools. The majority of the tax revenue is derived from real estate and farming. The District is mainly rural and has a very small industrial base, however with reductions of tangible personal property the small amount derived from industry will be gone soon.

The facilities are overcrowded and have not been updated significantly to meet the enrollment needs and additional course offerings necessary to be academically proficient. The voters have rejected a plan for a new 7-12 facility to be partially paid by the Ohio School Facilities twice. The district is no longer eligible to receive funds from OSF so the Board has asked the voters to approve a bond issue to upgrade and add-to the current facility. This issue is for the total cost of the project and was rejected twice by the voters of the district. This issue will again be on the ballot at the 2006 general election.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Unaudited)**

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**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Susan Ammanniti, Treasurer, Monroeville Local School District, 101 West Street, Monroeville, Ohio 44847.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 2,600,361
Receivables:	
Taxes . . . . .	2,453,907
Accounts . . . . .	3,203
Intergovernmental . . . . .	21,849
Accrued interest . . . . .	27,555
Prepayments . . . . .	25,297
Materials and supplies inventory . . . . .	4,040
Capital assets:	
Land . . . . .	189,859
Depreciable capital assets, net . . . . .	1,448,770
Capital assets, net. . . . .	1,638,629
Total assets. . . . .	6,774,841
<b>Liabilities:</b>	
Accounts payable. . . . .	12,505
Accrued wages and benefits . . . . .	514,586
Pension obligation payable. . . . .	146,621
Intergovernmental payable . . . . .	16,485
Deferred revenue . . . . .	2,166,540
Long-term liabilities:	
Due within one year. . . . .	86,257
Due in more than one year . . . . .	315,470
Total liabilities . . . . .	3,258,464
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,509,356
Restricted for:	
Capital projects . . . . .	70,825
Locally funded programs . . . . .	808
State funded programs. . . . .	12,490
Federally funded programs . . . . .	2,606
Other purposes . . . . .	31
Unrestricted. . . . .	1,920,261
Total net assets . . . . .	\$ 3,516,377

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions		Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 2,867,278	\$ 263,471	\$ 59,489	\$ -	\$ (2,544,318)
Special . . . . .	578,523	12,375	186,922	-	(379,226)
Vocational . . . . .	240,503	-	-	-	(240,503)
Other . . . . .	7,402	-	-	-	(7,402)
Support services:					
Pupil . . . . .	194,910	-	45,728	-	(149,182)
Instructional staff . . . . .	395,262	-	38,531	-	(356,731)
Board of education . . . . .	48,790	-	-	-	(48,790)
Administration . . . . .	480,826	9,031	2,372	-	(469,423)
Fiscal . . . . .	229,215	-	2,628	-	(226,587)
Business . . . . .	3,345	-	-	-	(3,345)
Operations and maintenance . . . . .	560,729	-	-	9,767	(550,962)
Pupil transportation . . . . .	319,576	-	-	-	(319,576)
Central . . . . .	6,046	-	-	-	(6,046)
Operation of non-instructional services:					
Non instructional services . . . . .	72,074	-	78,867	-	6,793
Food service operations . . . . .	269,113	167,938	91,252	-	(9,923)
Extracurricular activities . . . . .	205,252	55,097	3,749	-	(146,406)
Interest and fiscal charges . . . . .	8,084	-	-	-	(8,084)
<b>Total governmental activities . . . . .</b>	<b>\$ 6,486,928</b>	<b>\$ 507,912</b>	<b>\$ 509,538</b>	<b>\$ 9,767</b>	<b>(5,459,711)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	2,145,238
Capital projects . . . . .	73,510
Grants and entitlements not restricted	
to specific programs . . . . .	2,600,313
Investment earnings . . . . .	117,908
Miscellaneous . . . . .	14,793
<b>Total general revenues . . . . .</b>	<b>4,951,762</b>
Change in net assets . . . . .	(507,949)
<b>Net assets at beginning of year . . . . .</b>	<b>4,024,326</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 3,516,377</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 2,346,873	\$ 253,457	\$ 2,600,330
Receivables:			
Taxes . . . . .	2,374,235	79,672	2,453,907
Accounts . . . . .	2,966	237	3,203
Intergovernmental . . . . .	991	20,858	21,849
Accrued interest . . . . .	27,555	-	27,555
Interfund loan receivable . . . . .	5,000	-	5,000
Prepayments . . . . .	25,297	-	25,297
Materials and supplies inventory . . . . .	-	4,040	4,040
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	31	-	31
Total assets . . . . .	<u>\$ 4,782,948</u>	<u>\$ 358,264</u>	<u>\$ 5,141,212</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 10,001	\$ 2,504	\$ 12,505
Accrued wages and benefits . . . . .	456,553	58,033	514,586
Compensated absences payable . . . . .	6,785	-	6,785
Pension obligation payable. . . . .	132,832	13,789	146,621
Intergovernmental payable. . . . .	15,470	1,015	16,485
Interfund loan payable. . . . .	-	5,000	5,000
Deferred revenue. . . . .	2,197,549	86,416	2,283,965
Total liabilities . . . . .	<u>2,819,190</u>	<u>166,757</u>	<u>2,985,947</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	26,268	12,189	38,457
Reserved for materials and supplies inventory. . . . .	-	4,040	4,040
Reserved for prepayments . . . . .	25,297	-	25,297
Reserved for property tax unavailable for appropriation . . . . .	192,886	6,239	199,125
Reserved for school bus purchases . . . . .	31	-	31
Unreserved, undesignated, reported in:			
General fund . . . . .	1,719,276	-	1,719,276
Special revenue funds. . . . .	-	115,868	115,868
Capital projects funds. . . . .	-	53,171	53,171
Total fund balances . . . . .	<u>1,963,758</u>	<u>191,507</u>	<u>2,155,265</u>
Total liabilities and fund balances . . . . .	<u>\$ 4,782,948</u>	<u>\$ 358,264</u>	<u>\$ 5,141,212</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET  
ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006**

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<b>Total governmental fund balances</b>	\$	2,155,265
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,638,629
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 88,242	
Intergovernmental revenue	12,983	
Accrued interest	<u>16,200</u>	
Total		117,425
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(265,669)	
Energy conservation notes payable	(84,362)	
Capital lease	<u>(44,911)</u>	
Total		<u>(394,942)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u><u>3,516,377</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 2,109,415	\$ 71,698	\$ 2,181,113
Tuition . . . . .	243,074	-	243,074
Transportation fees. . . . .	430	-	430
Charges for services . . . . .	-	167,938	167,938
Earnings on investments . . . . .	107,412	4,706	112,118
Extracurricular . . . . .	-	64,128	64,128
Classroom materials and fees. . . . .	32,342	-	32,342
Other local revenues . . . . .	14,556	8,986	23,542
Intergovernmental - State . . . . .	2,600,313	149,845	2,750,158
Intergovernmental - Federal. . . . .	-	393,506	393,506
Total revenues. . . . .	<u>5,107,542</u>	<u>860,807</u>	<u>5,968,349</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	2,752,922	67,143	2,820,065
Special. . . . .	395,477	182,142	577,619
Vocational. . . . .	233,942	-	233,942
Other . . . . .	7,402	-	7,402
Support services:			
Pupil. . . . .	166,435	45,439	211,874
Instructional staff . . . . .	320,964	41,821	362,785
Board of education . . . . .	44,880	-	44,880
Administration. . . . .	459,148	12,075	471,223
Fiscal . . . . .	217,621	4,325	221,946
Business . . . . .	2,709	-	2,709
Operations and maintenance. . . . .	540,648	-	540,648
Pupil transportation . . . . .	382,971	-	382,971
Central. . . . .	4,570	-	4,570
Operation of non-instructional services:			
Non-instructional services . . . . .	-	72,074	72,074
Food service operations . . . . .	-	263,095	263,095
Extracurricular activities. . . . .	139,670	65,582	205,252
Facilities acquisition and construction. . . . .	4,460	119,685	124,145
Debt service:			
Principal retirement. . . . .	56,830	-	56,830
Interest and fiscal charges . . . . .	8,084	-	8,084
Total expenditures . . . . .	<u>5,738,733</u>	<u>873,381</u>	<u>6,612,114</u>
Excess of revenues under expenditures . . . . .	(631,191)	(12,574)	(643,765)
<b>Other financing sources (uses):</b>			
Sale of capital assets. . . . .	50	-	50
Transfers in . . . . .	1,603	-	1,603
Transfers (out). . . . .	-	(1,603)	(1,603)
Total other financing sources (uses) . . . . .	<u>1,653</u>	<u>(1,603)</u>	<u>50</u>
Net change in fund balances . . . . .	(629,538)	(14,177)	(643,715)
<b>Fund balances at beginning of year . . . . .</b>	<u>2,593,296</u>	<u>205,684</u>	<u>2,798,980</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 1,963,758</u>	<u>\$ 191,507</u>	<u>\$ 2,155,265</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Net change in fund balances - total governmental funds** \$ (643,715)

*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 capital outlays exceeds depreciation expense in the current period.

Capital asset additions	\$ 280,473	
Current year depreciation	(210,203)	
		70,270

The net effect of various miscellaneous transactions involving capital assets is to decrease net assets.

Disposal of capital assets	(155,320)	
Accumulated depreciation on disposed capital assets	145,339	
		(9,981)

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

Delinquent property taxes	37,635	
Intergovernmental revenues	(32,795)	
Accrued interest	5,790	
		10,630

Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		56,830
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		8,017
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**Change in net assets of governmental activities** \$ (507,949)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,314,366	\$ 2,314,366	\$ 2,421,851	\$ 107,485
Tuition. . . . .	262,654	262,654	247,517	(15,137)
Transportation fees . . . . .	-	-	430	430
Earnings on investments. . . . .	69,000	69,000	102,377	33,377
Classroom materials and fees . . . . .	29,000	29,000	32,240	3,240
Other local revenues . . . . .	10,150	10,150	11,876	1,726
Intergovernmental - State . . . . .	2,549,350	2,549,350	2,599,322	49,972
<b>Total revenues.</b> . . . .	<u>5,234,520</u>	<u>5,234,520</u>	<u>5,415,613</u>	<u>181,093</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,808,320	2,819,131	2,798,659	20,472
Special. . . . .	413,085	414,676	389,619	25,057
Vocational. . . . .	253,366	254,342	246,364	7,978
Other. . . . .	8,527	8,560	7,397	1,163
Support services:				
Pupil. . . . .	188,674	189,401	174,665	14,736
Instructional staff . . . . .	447,970	449,695	368,264	81,431
Board of education . . . . .	46,220	46,398	46,706	(308)
Administration. . . . .	444,290	446,001	464,024	(18,023)
Fiscal . . . . .	221,987	222,842	229,135	(6,293)
Business . . . . .	9,339	9,375	2,709	6,666
Operations and maintenance. . . . .	585,299	587,553	548,561	38,992
Pupil transportation . . . . .	328,923	330,190	379,308	(49,118)
Central. . . . .	4,956	4,975	4,570	405
Extracurricular activities. . . . .	162,634	163,260	140,051	23,209
Facilities acquisition and construction. . . . .	-	-	4,460	(4,460)
Debt Service:				
Principal retirement. . . . .	18,344	18,415	18,415	-
Interest and fiscal charges. . . . .	5,127	5,147	5,147	-
<b>Total expenditures</b> . . . . .	<u>5,947,061</u>	<u>5,969,961</u>	<u>5,828,054</u>	<u>141,907</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(712,541)</u>	<u>(735,441)</u>	<u>(412,441)</u>	<u>323,000</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	500	500	997	497
Transfers in. . . . .	-	-	1,603	1,603
Transfers (out) . . . . .	(7,500)	(7,500)	-	7,500
Advances in. . . . .	24,699	24,699	34,698	9,999
Advances (out) . . . . .	(50,000)	(50,000)	(15,000)	35,000
Refund of prior year receipts. . . . .	(500)	(500)	-	500
Sale of capital assets. . . . .	-	-	50	50
<b>Total other financing sources (uses)</b> . . . . .	<u>(32,801)</u>	<u>(32,801)</u>	<u>22,348</u>	<u>55,149</u>
Net change in fund balance . . . . .	(745,342)	(768,242)	(390,093)	378,149
<b>Fund balance at beginning of year</b> . . . . .	2,669,460	2,669,460	2,669,460	-
<b>Prior year encumbrances appropriated</b> . . . . .	34,993	34,993	34,993	-
<b>Fund balance at end of year</b> . . . . .	<u>\$ 1,959,111</u>	<u>\$ 1,936,211</u>	<u>\$ 2,314,360</u>	<u>\$ 378,149</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006**

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	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 30,261	\$ 35,350
Receivables:		
Accounts . . . . .	-	1,581
Accrued interest . . . . .	<u>593</u>	<u>-</u>
Total assets. . . . .	<u>30,854</u>	<u>\$ 36,931</u>
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 1,972
Due to students . . . . .	<u>-</u>	<u>34,959</u>
Total liabilities . . . . .	<u>-</u>	<u>\$ 36,931</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	<u>30,854</u>	
Total net assets . . . . .	<u>\$ 30,854</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 413
Gifts and contributions. . . . .	13,578
	13,991
<b>Deductions:</b>	
Scholarships awarded . . . . .	15,213
Change in net assets . . . . .	(1,222)
<b>Net assets at beginning of year . . . . .</b>	<b>32,076</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 30,854</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**NOTE 1: DESCRIPTION OF THE SCHOOL DISTRICT**

The Monroeville Local School District (the “District”) is located in Huron County and encompasses the Village of Monroeville and portions of surrounding townships in Huron and Erie Counties.

The District was established through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 553<sup>rd</sup> largest by enrollment among the 615 public school districts in the state, and the smallest in Huron County. It currently operates one elementary school and one comprehensive high school. The District employs 30 non-certified and 56 certified employees to provide services to 749 students in grades K through 12 and various community groups.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

A. **Reporting Entity** (Continued)

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

***JOINTLY GOVERNED ORGANIZATIONS***

**Bay Area Council of Governments (BACG)**

The BACG is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each school district. The Board of Directors of the BACG consist of 1 elected representative of each county, the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**EHOVE Career Center (Center)**

The Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The Center accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

A. **Reporting Entity** (Continued)

**Northern Ohio Educational Computer Association (NOECA)**

NOECA is a jointly governed organization among 41 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

***RELATED ORGANIZATION***

**Monroeville Public Library**

The District appoints the trustees of the library and approves its budget to comply with state code requirements, but is not involved in budgeting or management of the library and does not subsidize and finance the operation of the library.

***INSURANCE PURCHASING POOL***

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

**B. Fund Accounting**

The 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 is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

***PROPRIETARY FUND***

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

**B. Fund Accounting** (Continued)

***FIDUCIARY FUNDS***

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

**C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Presentation and Measurement Focus** (Continued)

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.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

D. **Basis of Accounting** (Continued)

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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

E. **Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund, function and object appropriation must be approved by the Board of Education.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

E. **Budgets** (Continued)

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and object level.

F. **Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

F. **Cash and Investments** (Continued)

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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$107,412, which includes \$7,877 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. **Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. **Capital Assets**

General capital assets are those assets specifically related to governmental activities. 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.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

H. **Capital Assets** (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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. The District does not possess infrastructure.

All reported capital assets except land 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>	Governmental Activities <u>Estimated Lives</u>
Land Improvements	5-20 years
Buildings and Improvements	20-50 years
Furniture and Equipment	5-20 years
Vehicles	6-10 years

I. **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 activities column on the statement of net assets.

J. **Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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

J. **Compensated Absences** (Continued)

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

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

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, 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 year. Notes are recognized as a liability on the fund financial statements when due.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

L. **Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, school bus purchases and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. **Net Assets**

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

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

N. **Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

**O. Parochial Schools**

Within the District boundaries, St. Joseph Elementary is operated through the Toledo Catholic Diocese. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a special revenue fund for financial reporting purposes.

**P. Estimates**

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

**Q. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a school bus purchase reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

**R. Interfund Activity**

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

**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 year 2006.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

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

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Deficit Fund Balances**

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

**Nonmajor Funds**

District Managed Activity	\$ 1,456
Management Information Systems	6
Title VI-B	9,978
Title I	13,739
Reducing Class Size	1,630

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**MONROEVILLE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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**NOTE 4: DEPOSITS AND INVESTMENTS**

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

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

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

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

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

Interim monies 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 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.

A. **Cash on Hand**

At year-end, the District had \$2,150 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$1,145,625. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2006, \$982,056 of the District's bank balance of \$1,236,973 was exposed to custodial risk as discussed below, while \$254,917 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**C. Investments**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 Months or Less</u>
STAROhio	<u>\$1,518,197</u>	<u>\$ 1,518,197</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District's investments in STAR Ohio were assigned an AAAM money market rating from Standard and Poor's.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>of Total</u>
STAROhio	<u>\$1,518,197</u>	<u>100.00 %</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per Footnote</u>	
Carrying Amount of Deposits	\$ 1,145,625
Investments	1,518,197
Cash on Hand	<u>2,150</u>
Total Cash and Investments per Footnote	<u>\$ 2,665,972</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental Activities	\$ 2,600,361
Private-Purpose Trust Funds	30,261
Agency Funds	<u>35,350</u>
Total Cash and Investments per Statement of Net Assets	<u>\$ 2,665,972</u>

NOTE 5: **INTERFUND TRANSACTIONS**

**A. Interfund Balances**

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 5,000

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 5: **INTERFUND TRANSACTIONS** (Continued)

**B. Interfund Transfers**

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to General Fund from Nonmajor Governmental Funds	\$ 1,603
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6: **PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the 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 District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

**MONROEVILLE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**  
**(CONTINUED)**

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NOTE 6: **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, 2006 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-four 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 District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

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

The amount available as an advance at June 30, 2006 was \$192,886 in the general fund and \$6,239 in the Permanent Improvement capital projects fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$505,322 in the general fund, and \$16,294 in the Permanent Improvement capital projects fund.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

NOTE 6: **PROPERTY TAXES** (Continued)

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:

	2005		2006	
	<u>Second-Half Collections</u>		<u>First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 71,000,200	87.55	\$ 72,047,010	90.47
Public Utility Personal	2,437,850	3.01	1,825,550	2.29
Tangible Personal Property	<u>7,658,850</u>	<u>9.44</u>	<u>5,760,953</u>	<u>7.24</u>
Total	<u>\$ 81,096,900</u>	<u>100.00</u>	<u>\$ 79,633,513</u>	<u>100.00</u>
 Tax Rate per \$1,000 of Assessed Valuation	 \$ 46.80		 \$ 46.80	

NOTE 7: **RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 2,453,907
Accounts	3,203
Intergovernmental	21,849
Accrued Interest	<u>27,555</u>
Total	<u>\$ 2,506,514</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

**NOTE 8: CAPITAL ASSETS**

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

	Balance <u>06/30/2005</u>	Deductions	<u>06/30/2006</u>	Balance
<b><u>Governmental Activities</u></b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$ 167,477	\$ 22,382	\$ 0	\$ 189,859
<i>Total Capital Assets, not being depreciated</i>	<u>167,477</u>	<u>22,382</u>	<u>0</u>	<u>189,859</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	178,543	22,505	0	201,048
Buildings and Improvements	2,219,834	109,476	0	2,329,310
Furniture and Equipment	1,156,129	50,210	(27,038)	1,179,301
Vehicles	427,616	75,900	(128,282)	375,234
<i>Total Capital Assets, being depreciated</i>	<u>3,982,122</u>	<u>258,091</u>	<u>(155,320)</u>	<u>4,084,893</u>
<i>Less: Accumulated Depreciation</i>				
Land Improvements	(105,439)	(8,185)	0	(113,624)
Buildings and Improvements	(1,273,756)	(54,879)	0	(1,328,635)
Furniture and Equipment	(779,198)	(136,823)	17,057	(898,964)
Vehicles	(412,866)	(10,316)	128,282	(294,900)
<i>Total Accumulated Depreciation</i>	<u>(2,571,259)</u>	<u>(210,203)</u>	<u>145,339</u>	<u>(2,636,123)</u>
<b>Government Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 1,578,340</u>	<u>\$ 70,270</u>	<u>\$ (9,981)</u>	<u>\$ 1,638,629</u>

Depreciation expense was charged to the governmental functions as follows:

Instruction:		
Regular		\$ 112,215
Special		341
Vocational		9,698
Support Services:		
Pupil		3,953
Instructional Staff		42,144
Board of Education		3,910
Administration		5,350
Fiscal		2,325
Business		636
Operations and Maintenance		12,722
Pupil Transportation		10,831
Food Service Operations		6,078
<b>Total Depreciation Expense</b>		<u>\$ 210,203</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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**NOTE 9: CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal year 2005, the District entered into capitalized leases for copier equipment and computers. These lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of office equipment have been capitalized in the amount of \$118,602. These amounts represent the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 for equipment was \$57,979 leaving a current book value of \$60,623. Principal payments in fiscal year 2006 totaled \$38,415 paid by the general fund.

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2007	\$ 41,352
2008	1,598
2009	1,598
2010	<u>1,197</u>
Total Minimum Lease Payments	45,745
Less Amount Representing Interest	<u>(834)</u>
Total	<u>\$ 44,911</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**NOTE 10: LONG-TERM OBLIGATIONS**

During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance 06/30/2005	Additions	Reductions	Balance Outstanding 06/30/2006	Amounts Due in One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$ 273,686	\$ 48,993	\$ (50,225)	\$ 272,454	\$ 25,845
Capital Lease	83,326	0	(38,415)	44,911	40,984
Energy Conservation Note	<u>102,777</u>	<u>0</u>	<u>(18,415)</u>	<u>84,362</u>	<u>19,428</u>
<b>Total Long-Term Obligations, Governmental Activities</b>	<u>\$ 459,789</u>	<u>\$ 48,993</u>	<u>\$(107,055)</u>	<u>\$ 401,727</u>	<u>\$ 86,257</u>

*Energy Conservation Note:*

On November 1, 1999, the District issued unvoted long-term “energy conservation” notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District’s full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the governmental activities. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes and loans without voter approval, and the subsequent repayment of the notes from operating revenues. The notes bear an annual interest rate of 5.50% and mature November 1, 2009.

Compensated absences will be paid from the funds which the employees are paid.

The following is a summary of the District’s future annual debt service requirements to maturity for the energy conservation note:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 19,428	\$ 4,106	\$ 23,534
2008	20,497	3,008	23,505
2009	21,624	1,849	23,473
2010	<u>22,813</u>	<u>627</u>	<u>23,440</u>
Total	<u>\$ 84,362</u>	<u>\$ 9,590</u>	<u>\$ 93,952</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 10: **LONG-TERM OBLIGATIONS** (Continued)

**Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$7,167,016, an unvoted debt margin of \$79,634, and an energy conservation debt margin of \$632,340.

NOTE 11: **RISK MANAGEMENT**

A. **Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. **Health Care Benefits**

The District provides employee health care benefits through membership in the Huron-Erie School Employees Insurance Association, a public entity risk management pool. Monthly payments are made to the Association for health, dental and vision insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120% of the prior year's aggregate claims. Individual coverage cannot exceed \$1,000,000 in claims during their lifetime. Financial information can be obtained by writing to the Erie-Ottawa Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 11: **RISK MANAGEMENT** (Continued)

C. **Workers' Compensation Plan**

For fiscal year 2006 the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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 rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

NOTE 12: **PENSION PLAN**

A. **School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006,

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 12: **PENSION PLAN** (Continued)

A. **School Employees Retirement System** (Continued)

2005, and 2004 were \$86,302, \$82,432, and \$63,970, respectively; 46.97% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$45,769 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. **State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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.

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 12: **PENSION PLAN** (Continued)

B. **State Teachers Retirement System** (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$374,274, \$358,769, and \$330,610, respectively; 81.93% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$67,633 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$489 made by the District and \$6,383 made by plan members.

C. **Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13: **POSTEMPLOYMENT BENEFITS**

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



**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 13: **POSTEMPLOYMENT BENEFITS** (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is 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 Reserve Fund. For the District, this amount equaled \$28,790 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million 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 basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$42,547 to fund health care benefits, including the surcharge.

**MONROEVILLE LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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**NOTE 13: POSTEMPLOYMENT BENEFITS** (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**NOTE 14: BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

1. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

NOTE 14: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

Net Change in Fund Balance	General Fund
Budget Basis	\$ (390,093)
Net Adjustment for Revenue Accruals	(308,071)
Net Adjustment for Expenditure Accruals	56,777
Net Adjustment for Other Sources/Uses	(20,695)
Adjustment for Encumbrances	32,544
GAAP Basis	<u>\$ (629,538)</u>

NOTE 15: **CONTINGENCIES**

A. **Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. **Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 16: **STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2005	\$ (155,506)	\$ 0
Current Year Set-aside Requirement	102,880	102,880
Current Year Offsets	0	(81,753)
Qualifying Disbursements	<u>(111,561)</u>	<u>(129,654)</u>
Total	<u>\$ (164,187)</u>	<u>\$ (108,527)</u>
Cash Balance Carried Forward to FY 2007	<u>\$ (164,187)</u>	<u>\$ 0</u>

**MONROEVILLE LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(CONTINUED)**

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NOTE 16: **STATUTORY RESERVES** (Continued)

The District had qualifying disbursements during the year that reduced the capital acquisition set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirements of future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	<u>\$</u> <u>31</u>
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Monroeville Local School District  
Huron County  
Monroeville, Ohio 44847-9797

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Monroeville Local School District, Huron County, Ohio, (the District), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Monroeville Local School District, Ohio's basic financial statements and have issued our report thereon dated December 5, 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 Monroeville Local School District, Ohio's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Monroeville Local School District, Ohio'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Monroeville Local School District, Ohio, in a separate letter dated December 5, 2006.

This report is intended solely for the information and use of management and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

December 5, 2006



**Mary Taylor, CPA**  
Auditor of State

**MONROEVILLE LOCAL SCHOOL DISTRICT**  
**HURON 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**  
**FEBRUARY 6, 2007**