



Mary Taylor, CPA
Auditor of State

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets – June 30, 2006	15
Statement of Activities – For the Fiscal Year Ended June 30, 2006	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds – June 30, 2006.....	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – June 30, 2006	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – For the Fiscal Year Ended June 30, 2006	20
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	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund – For the Fiscal Year Ended June 30, 2006	22
Statement of Net Assets – Proprietary Funds – June 30, 2006.....	23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – For the Fiscal Year Ended June 30, 2006.....	24
Statement of Cash Flows – Proprietary Funds – For the Fiscal Year Ended June 30, 2006	25
Statement of Fiduciary Assets and Liabilities - Fiduciary Fund – June 30, 2006	26
Notes to the Basic Financial Statements	27
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	51

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Walnut Township Local School District
Fairfield County
11850 Lancaster Street
Millersport, Ohio 43046

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

April 18, 2007

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The discussion and analysis of the Walnut Township Local School District's (the District) financial performance provides an overview and analysis 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

Financial Highlights

- Total assets of the District exceeded its liabilities at June 30, 2006 by \$7,821,099. This balance was comprised of a \$4,832,827 balance in capital assets, net of related debt and net asset amounts restricted for specific purposes, and \$2,176,005 in unrestricted net assets.
- In total, net assets of governmental activities increased by \$375,186, which represents a 5.1 percent increase from 2005. Net assets of the business-type activities increased \$81 which represents an 0.2 percent increase from 2005.
- General revenues accounted for \$5,496,063 or 84.6 percent of all revenues of governmental activities. Program specific revenues in the form of charges for services and sales, and grants and contributions accounted for \$999,464 or 15.4 percent of total revenues of \$6,495,529 for the governmental activities.
- The District had \$6,117,133 in expenses related to governmental activities; only \$999,464 of these expenses were offset by program specific charges for services and sales, grants and contributions. General revenues (primarily taxes and grants and entitlements) of \$5,496,063 were used to provide for these remainder of these programs.
- The District had \$305,924 in expenses related to business-type activities; \$301,094 of these expenses were offset by program specific charges for services and sales, grants and contributions.
- The District recognizes two major governmental funds: the General and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other governmental funds of the District combined. The General Fund had \$5,797,485 in revenues and \$5,124,140 in expenditures in fiscal year 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and 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.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. 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. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

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

In both of the government-wide financial statements, the District's activities are divided into two distinct kinds of activities: governmental activities and business-type activities.

Governmental Activities

Most of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Business-Type Activities

These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District food service operations and the sale of school supplies are reported as business activities.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 18. 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.

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

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

Proprietary Funds

Proprietary funds have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the District as a whole.

Fiduciary Funds

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

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.

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

	Table 1 Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets:</u>						
Current and Other Assets	\$6,369,553	\$5,976,939	\$60,131	\$58,464	\$6,429,684	\$6,035,403
Capital Assets, Net	7,630,285	7,923,801	34,592	39,658	7,664,877	7,963,459
<i>Total Assets</i>	13,999,838	13,900,740	94,723	98,122	14,094,561	13,998,862
<u>Liabilities:</u>						
Long-Term Liabilities	3,153,316	3,405,116	13,227	13,355	3,166,543	3,418,471
Other Liabilities	3,078,521	3,102,809	28,398	31,750	3,106,919	3,134,559
<i>Total Liabilities</i>	6,231,837	6,507,925	41,625	45,105	6,273,462	6,553,030
<u>Net Assets:</u>						
Invested in Capital Assets, Net of Related Debt	4,798,235	4,868,123	34,592	39,658	4,832,827	4,907,781
Restricted	812,267	1,039,247	0	0	812,267	1,039,247
Unrestricted	2,157,499	1,485,445	18,506	13,359	2,176,005	1,498,804
<i>Total Net Assets</i>	<u>\$7,768,001</u>	<u>\$7,392,815</u>	<u>\$53,098</u>	<u>\$53,017</u>	<u>\$7,821,099</u>	<u>\$7,445,832</u>

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Current and other assets increased \$394,281 from fiscal year 2005 with governmental activities comprising \$392,614 of the increase. This increase is the result of an increase in cash and cash equivalents held by the District due to operations during the fiscal year.

Capital assets decreased by \$298,582 as a result of current year depreciation.

Current (other) liabilities decreased \$27,640 or 0.88 percent.

Long-term liabilities decreased \$251,928 due to the retirement of principal on general obligation debt.

The net assets of the District increased \$375,267 or 5.0 percent, which is almost entirely due to the increase in the governmental activities.

For governmental activities, the District's smallest portion of net assets of \$812,267 or 10.5 percent is restricted. The restricted net assets are subject to external restrictions on how they may be used.

The largest portion of net assets for governmental activities is the net assets related to amounts invested in capital assets, net of related debt of \$4,798,235 or 61.80 percent. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

The remaining balance for governmental activities of \$2,157,499 or 27.7 percent is unrestricted net assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2006 and provides a comparison to fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Revenues:</u>						
<i>Program Revenues:</i>						
Charges for Services and Sales	\$426,024	\$454,812	\$188,520	\$197,012	\$614,544	\$651,824
Operating Grants and Contributions	573,440	382,020	112,574	101,598	686,014	483,618
Capital Grants and Contributions	0	6,510	0	0	0	6,510
<i>General Revenues:</i>						
Property Taxes	2,787,998	2,675,936	0	0	2,787,998	2,675,936
Income Taxes	906,612	872,498	0	0	906,612	872,498
Unrestricted Grants and Entitlements	1,604,239	1,854,850	0	0	1,604,239	1,854,850
Investments Earnings	138,851	62,381	1,703	968	140,554	63,349
Miscellaneous	58,363	53,267	0	0	58,363	53,267
<i>Total Revenues</i>	<i>6,495,527</i>	<i>6,362,274</i>	<i>302,797</i>	<i>299,578</i>	<i>6,798,324</i>	<i>6,661,852</i>
<u>Expenses:</u>						
<i>Program Expenses:</i>						
<i>Instruction:</i>						
Regular	2,644,298	2,631,863	0	0	2,644,298	2,631,863
Special	701,303	621,977	0	0	701,303	621,977
Vocational	57,534	53,848	0	0	57,534	53,848
Other	14,941	0	0	0	14,941	0

(Continued)

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<i>Support Services:</i>						
Pupils	294,201	257,093	0	0	294,201	257,093
Instructional Staff	184,522	124,917	0	0	184,522	124,917
Board of Education	174,649	140,066	0	0	174,649	140,066
Administration	432,585	439,051	0	0	432,585	439,051
Fiscal	302,151	302,197	0	0	302,151	302,197
Operation and Maintenance of Plant	566,438	618,094	0	0	566,438	618,094
Pupil Transportation	338,460	332,732	0	0	338,460	332,732
Central	17,177	13,079	0	0	17,177	13,079
Non-Instructional	689	0	0	0	689	0
Extracurricular Activities	195,993	221,966	0	0	195,993	221,966
Interest and Fiscal Charges	192,192	208,069	0	0	192,192	208,069
Food Service	0	0	285,608	276,613	285,608	276,613
Uniform School Supplies	0	0	20,316	20,882	20,316	20,882
<i>Total Expenses</i>	6,117,133	5,964,952	305,924	297,495	6,423,057	6,262,447
<i>Changes in Net Assets Before Transfers</i>	378,394	397,322	(3,127)	2,083	375,267	399,405
Net Transfers	(3,208)	(24,924)	3,208	24,924	0	0
<i>Changes in Net Assets</i>	375,186	372,398	81	27,007	375,267	399,405
<i>Net Assets at Beginning of Year</i>	7,392,815	7,020,417	53,017	26,010	7,445,832	7,046,427
<i>Net Assets at End of Year</i>	<u>\$7,768,001</u>	<u>\$7,392,815</u>	<u>\$53,098</u>	<u>\$53,017</u>	<u>\$7,821,099</u>	<u>\$7,445,832</u>

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration and Pupil Transportation. These programs account for 76.6 percent of the total governmental activities. Regular Instruction, which accounts for 43.2 percent of the total, represents costs associated with providing general educational services. Special Instruction, which accounts for 11.5 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 9.3 percent of the total, represents costs associated with operating and maintaining the District's facilities. Administration, which represent 7.1 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 5.5 percent of the total, represents costs associated with providing transportation services for students between home and school and school activities.

The majority of the funding for the most significant programs indicated above is from property taxes, income taxes and grants and entitlements not restricted for specific programs. Property taxes, income taxes and grants and entitlements not restricted for specific programs accounts for 81.6 percent of total revenues for governmental activities.

As noted previously, the net assets for the governmental activities increased \$375,186 or 5.1 percent. This is an increase from last year when net assets increased \$372,398 or 5.3 percent. Total revenues increased \$133,253 or 2.1 percent over last year and expenses increased \$152,181 or 2.6 percent over last year.

The District had program revenue increases of \$156,122, as well as a decrease in general revenues of \$22,869. The increase in program revenue is mostly due to the District receiving more in operating grants during fiscal year 2006.

The total expenses for governmental activities increased \$152,181 due to an increase in special instruction, pupils, and instructional staff. The majority of the increase is the result of salary increases. The remaining difference is due to normal increases in expenses.

The most significant program expenses for the District's business-type activities is the Food Service. This program, which accounts for 93.4 percent of the total business-type activities, represents costs associated with food service operations.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes, income taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 42.92 percent, income taxes made up 13.96 percent and intergovernmental revenue made up 24.7 percent of the total revenue for the governmental activities in fiscal year 2006.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation until the millage rate has been reduced to 2 mills. The District's operating millage rate is currently at 2 mills and collections do increase/decrease correspondingly with fluctuations in property valuations.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The District's income tax revenue consists of a 1.25 percent voted income tax levy. During fiscal year 2006, the District received \$906,612, which represents 14.0 percent of the total revenue for the governmental activities.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2006, the District received \$1,505,320 through the State's foundation program, which represents 23.2 percent of the total revenue for the governmental activities. The District relies on this state funding to operate at the current levels of service.

Instruction accounts for 55.9 percent of governmental activities program expenses. Support services expenses make up 37.8 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Business-Type Activities

Business-type activities include the food service and uniform school supplies. These programs had program revenues of \$301,094 and expenses of \$305,924 for fiscal year 2006. Almost 60 percent of those program revenues were from fees for the food service program.

Table 3 shows, the total cost of services and the net cost of services for fiscal year 2006 and comparison to fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue, income tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<u>Program Expenses:</u>				
<i>Governmental Activities:</i>				
Instruction	\$3,418,076	\$2,658,584	\$3,307,688	\$2,587,407
Support Services	2,310,183	2,122,731	2,227,229	2,197,486
Non-Instructional Services	689	689	0	0
Extracurricular Activities	195,993	143,473	221,966	128,648
Interest and Fiscal Charges	192,192	192,192	208,069	208,069
<i>Business-Type Activities:</i>				
Food Service	285,608	2,360	276,613	(2,231)
Uniform School Supplies	20,316	2,470	20,882	1,116
Total Expenses	\$6,423,057	\$5,122,499	\$6,262,447	\$5,120,495

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues and other financing sources of \$6,557,047 and expenditures and other financing uses of \$6,144,497.

Total governmental funds fund balance increased by \$412,550. The increase in fund balance for the year was most significant in the General Fund, an increase of \$605,702 reflecting an increased effort to control spending. The Bond Retirement fund decreased in fund balance by \$95,455 due to principal and interest payments.

The District should remain stable in fiscal years 2007 through 2008. However, projections beyond fiscal year 2008 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of the fiscal year, the District amended its General Fund budget several times. The District uses a modified program-based budget technique that is designed to control program budgets while providing building administrators and supervisors flexibility for program management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$5,324,743 representing a \$1,018 or 0.02 percent increase from the original budget estimates. For the General Fund, the final budget basis expenditures were \$5,495,345 representing an increase of \$125,976 from the original budget estimates of \$5,369,369. The final budget reflected a 2.4 percent increase from the original budgeted amount. The difference is the result of low estimates in many of the expenditures on the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$14.1 million invested in capital assets in the governmental activities and \$103,000 in the business-type activities. These totals carry accumulated depreciation of \$6.4 million and \$69,000, respectively. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2006

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
<i>Nondepreciable Capital Assets:</i>				
Land	\$47,950	\$47,950	\$0	\$0
<i>Depreciable Capital Assets:</i>				
Land Improvements	352,360	352,360	0	0
Buildings and Improvements	11,211,782	11,211,782	0	0
Furniture, Fixtures and Equipment	1,667,741	1,685,810	103,293	115,555
Vehicles	621,158	621,158	0	0
Library Books and Textbooks	192,194	188,664	0	0
<i>Total Capital Assets</i>	14,093,185	14,107,724	103,293	115,555
<i>Accumulated Depreciation:</i>				
Land Improvements	(155,074)	(149,727)	0	0
Buildings and Improvements	(4,525,050)	(4,332,504)	0	0
Furniture, Fixtures and Equipment	(1,186,616)	(1,154,077)	(68,701)	(75,897)
Vehicles	(453,684)	(416,431)	0	0
Library Books and Textbooks	(94,526)	(83,234)	0	0
<i>Total Accumulated Depreciation</i>	(6,414,950)	(6,135,973)	(68,701)	(75,897)
Capital Assets, Net	<u>\$7,678,235</u>	<u>\$7,971,751</u>	<u>\$34,592</u>	<u>\$39,658</u>

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2006, the District had \$2,880,000 in general obligation debt outstanding with \$230,000 due within one year. Table 5 summarizes the bonds outstanding for fiscal year 2006 compared to fiscal year 2005.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2006	2005
1985 School Improvement Bonds	\$230,000	\$345,000
1995 School Improvement Bonds	<u>2,650,000</u>	<u>2,760,000</u>
Total	<u>\$2,880,000</u>	<u>\$3,105,000</u>

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Economic Factors

The DeRolf IV decision has not eliminated the dependence on property taxes. The fundamental reliance on property taxes is still inherent with public schools in Ohio. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected increases thus generating about the same revenue. Taxes made up approximately 60 percent of revenues for governmental activities for the District in fiscal year 2006. Of this 60 percent, 16 percent was School District Income Tax. The District's income tax is a 10 year levy and runs from 2004 through calendar year 2013. The State still has not fixed the funding system although there is hope for some changes as the result of any recommendations from the Governors Blue Ribbon Task Force created as a result of DeRolf IV.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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 received. If you have any questions about this report or need additional information contact Kirk Grandy, Treasurer of Walnut Township Local School District, 11850 Lancaster Street, Millersport, Ohio 43046.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$2,649,482	\$55,477	\$2,704,959
Property Taxes Receivable	3,049,136	0	3,049,136
Income Taxes Receivable	407,346	0	407,346
Accounts Receivable	834	778	1,612
Intergovernmental Receivable	44,497	0	44,497
Accrued Interest Receivable	15,266	215	15,481
Prepaid Items	18,598	0	18,598
Inventory Held for Resale	0	3,661	3,661
<i>Noncurrent Assets:</i>			
<i>Restricted Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	136,444	0	136,444
Nondepreciable Capital Assets	47,950	0	47,950
Depreciable Capital Assets, Net	7,630,285	34,592	7,664,877
<i>Total Assets</i>	<u>13,999,838</u>	<u>94,723</u>	<u>14,094,561</u>
<u>Liabilities:</u>			
Accounts Payable	10,686	0	10,686
Accrued Wages and Benefits	420,722	18,691	439,413
Intergovernmental Payable	141,164	9,707	150,871
Accrued Interest Payable	14,326	0	14,326
Matured Compensated Absences Payable	47,636	0	47,636
Deferred Revenue	2,443,987	0	2,443,987
<i>Long-Term Liabilities:</i>			
Due within One Year	286,066	0	286,066
Due in More Than One Year	2,867,250	13,227	2,880,477
<i>Total Liabilities</i>	<u>6,231,837</u>	<u>41,625</u>	<u>6,273,462</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	4,798,235	34,592	4,832,827
<i>Restricted for:</i>			
Capital Outlay	57,160	0	57,160
Debt Service	634,438	0	634,438
Other Purposes	120,669	0	120,669
Unrestricted	2,157,499	18,506	2,176,005
<i>Total Net Assets</i>	<u>\$7,768,001</u>	<u>\$53,098</u>	<u>\$7,821,099</u>

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<u>Governmental Activities:</u>			
<i>Instruction:</i>			
Regular	\$2,644,298	\$381,558	\$46,319
Special	701,303	0	331,053
Vocational	57,534	0	562
Other	14,941	0	0
<i>Support Services:</i>			
Pupils	294,201	0	7,651
Instructional Staff	184,522	0	10,506
Board of Education	174,649	0	0
Administration	432,585	0	8,943
Fiscal	302,151	0	7,427
Operation and Maintenance of Plant	566,438	0	0
Pupil Transportation	338,460	0	146,925
Central	17,177	0	6,000
Operation of Non-Instructional Services	689	0	0
Extracurricular Activities	195,993	44,466	8,054
Interest and Fiscal Charges	192,192	0	0
<i>Total Governmental Activities</i>	<u>6,117,133</u>	<u>426,024</u>	<u>573,440</u>
<u>Business-Type Activities:</u>			
Food Service	285,608	170,674	112,574
Uniform School Supplies	20,316	17,846	0
<i>Total Business-Type Activities</i>	<u>305,924</u>	<u>188,520</u>	<u>112,574</u>
Totals	<u><u>\$6,423,057</u></u>	<u><u>\$614,544</u></u>	<u><u>\$2</u></u>

General Revenues:

Property Taxes Levied for:

General Purposes

Debt Service

Income Taxes Levied for:

General Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$2,216,421)	\$0	(\$2,216,421)
(370,250)	0	(370,250)
(56,972)	0	(56,972)
(14,941)	0	(14,941)
(286,550)	0	(286,550)
(174,016)	0	(174,016)
(174,649)	0	(174,649)
(423,642)	0	(423,642)
(294,724)	0	(294,724)
(566,438)	0	(566,438)
(191,535)	0	(191,535)
(11,177)	0	(11,177)
(689)	0	(689)
(143,473)	0	(143,473)
(192,192)	0	(192,192)
(5,117,669)	0	(5,117,669)
0	(2,360)	(2,360)
0	(2,470)	(2,470)
0	(4,830)	(4,830)
(5,117,669)	(4,830)	(5,122,499)
2,494,906	0	2,494,906
293,092	0	293,092
906,612	0	906,612
1,604,239	0	1,604,239
138,851	1,703	140,554
58,363	0	58,363
5,496,063	1,703	5,497,766
(3,208)	3,208	0
5,492,855	4,911	5,497,766
375,186	81	375,267
7,392,815	53,017	7,445,832
<u>\$7,768,001</u>	<u>\$53,098</u>	<u>\$7,821,099</u>

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,772,918	\$577,881	\$298,683	\$2,649,482
Property Taxes Receivable	2,726,631	322,505	0	3,049,136
Income Taxes Receivable	407,346	0	0	407,346
Intergovernmental Receivable	44,497	0	0	44,497
Accounts Receivable	834	0	0	834
Accrued Interest Receivable	15,266	0	0	15,266
Prepaid Items	18,598	0	0	18,598
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	136,444	0	0	136,444
Total Assets	\$5,122,534	\$900,386	\$298,683	\$6,321,603
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$10,356	\$0	\$330	\$10,686
Accrued Wages and Benefits	420,722	0	0	420,722
Intergovernmental Payable	140,547	0	617	141,164
Deferred Revenue	2,483,996	286,127	0	2,770,123
Matured Compensated Absences Payable	0	0	47,636	47,636
Total Liabilities	3,055,621	286,127	48,583	3,390,331
<u>Fund Balances:</u>				
Reserved for Encumbrances	13,437	0	5,500	18,937
Reserved for Property Taxes	242,635	36,378	0	279,013
Reserved for Textbooks and Instructional Material	46,359	0	0	46,359
Reserved for Capital Improvements	33,301	0	0	33,301
Reserved for Budget Stabilization	50,684	0	0	50,684
Reserved for Bus Purchases	6,100	0	0	6,100
<u>Unreserved, Designated for Termination Benefits Reported in:</u>				
Special Revenue Funds	0	0	140,751	140,751
<u>Unreserved, Undesignated, Reported in:</u>				
General Fund	1,674,397	0	0	1,674,397
Special Revenue Funds	0	0	46,689	46,689
Debt Service Fund	0	577,881	0	577,881
Capital Projects Funds	0	0	57,160	57,160
Total Fund Balances	2,066,913	614,259	250,100	2,931,272
Total Liabilities and Fund Balances	\$5,122,534	\$900,386	\$298,683	\$6,321,603

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total Governmental Funds Balances		\$2,931,272
<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.		7,678,235
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:		
Property taxes		326,136
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
General obligation bonds	(2,880,000)	
Accrued interest on bonds	(14,326)	
Compensated absences	<u>(273,316)</u>	
Total liabilities not reported in funds		<u>(3,167,642)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$7,768,001</u></u>

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,492,263	\$292,780	\$0	\$2,785,043
Income Taxes	906,612	0	0	906,612
Intergovernmental	1,821,005	35,854	301,673	2,158,532
Interest	138,851	0	0	138,851
Tuition and Fees	381,558	0	0	381,558
Gifts and Donations	1,300	0	19,147	20,447
Rent	500	0	0	500
Extracurricular Activities	0	0	44,466	44,466
Miscellaneous	55,396	0	1,167	56,563
Total Revenues	5,797,485	328,634	366,453	6,492,572
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	2,396,091	0	95,671	2,491,762
Special	460,425	0	216,016	676,441
Vocational	52,533	0	0	52,533
Other	14,941	0	0	14,941
<i>Support Services:</i>				
Pupils	315,864	0	8,651	324,515
Instructional Staff	85,299	0	82,757	168,056
Board of Education	174,053	0	0	174,053
Administration	395,461	0	14,541	410,002
Fiscal	282,324	5,500	5,883	293,707
Operation and Maintenance of Plant	509,804	0	42,131	551,935
Pupil Transportation	293,543	0	2,725	296,268
Central	3,926	0	13,251	17,177
Operation of Non-Instructional Services	39	0	0	39
Extracurricular Activities	139,837	0	46,979	186,816
<i>Debt Service:</i>				
Principal Retirement	0	225,000	0	225,000
Interest and Fiscal Charges	0	193,589	0	193,589
Total Expenditures	5,124,140	424,089	528,605	6,076,834
Excess of Revenues Over (Under) Expenditures	673,345	(95,455)	(162,152)	415,738
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	20	0	0	20
Transfers In	0	0	64,455	64,455
Transfers Out	(67,663)	0	0	(67,663)
Total Other Financing Sources (Uses)	(67,643)	0	64,455	(3,188)
Net Change in Fund Balances	605,702	(95,455)	(97,697)	412,550
Fund Balances at Beginning of Year	1,461,211	709,714	347,797	2,518,722
Fund Balances at End of Year	\$2,066,913	\$614,259	\$250,100	\$2,931,272

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**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**

Net Change in Fund Balances - Total Governmental Funds	\$412,550
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(278,934)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(14,582)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Property taxes	2,955
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	225,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,397
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: Decrease in compensated absences	<u>26,800</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$375,186</u></u>

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,502,138	\$2,503,156	\$2,534,564	\$31,408
Income Taxes	603,995	603,995	945,717	341,722
Intergovernmental	1,789,337	1,789,337	1,822,644	33,307
Interest	50,000	50,000	131,875	81,875
Tuition and Fees	333,380	333,380	385,942	52,562
Rent	100	100	500	400
Gifts and Donations	1,000	1,000	1,300	300
Miscellaneous	43,775	43,775	54,562	10,787
Total Revenues	5,323,725	5,324,743	5,877,104	552,361
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	2,511,222	2,533,227	2,454,098	79,129
Special	503,978	515,150	496,145	19,005
Vocational	52,305	52,414	51,984	430
Other	0	16,264	14,939	1,325
<i>Support Services:</i>				
Pupils	287,769	335,778	325,266	10,512
Instructional Staff	100,114	113,148	88,900	24,248
Board of Education	196,882	178,276	174,249	4,027
Administration	401,916	406,490	398,123	8,367
Fiscal	281,923	296,071	288,123	7,948
Operation and Maintenance of Plant	557,314	540,699	507,862	32,837
Pupil Transportation	325,832	348,459	299,337	49,122
Central	9,385	9,385	3,927	5,458
Operation of Non-Instructional Services	0	40	39	1
Extracurricular Activities	140,729	149,944	139,355	10,589
Total Expenditures	5,369,369	5,495,345	5,242,347	252,998
Excess of Revenues Over (Under) Expenditures	(45,644)	(170,602)	634,757	805,359
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	100	100	20	(80)
Transfers Out	(311,299)	(179,383)	(67,663)	111,720
Total Other Financing Sources (Uses)	(311,199)	(179,283)	(67,643)	111,640
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(356,843)	(349,885)	567,114	916,999
Fund Balance at Beginning of Year	1,322,672	1,322,672	1,322,672	0
Prior Year Encumbrances Appropriated	6,144	6,144	6,144	0
Fund Balance at End of Year	\$971,973	\$978,931	\$1,895,930	\$916,999

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

	Nonmajor Enterprise Funds
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$55,477
Accounts Receivable	778
Accrued Interest Receivable	215
Inventory for Resale	3,661
<i>Total Current Assets</i>	60,131
<i>Noncurrent Assets:</i>	
Depreciable Capital Assets, Net	34,592
<i>Total Assets</i>	94,723
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Accrued Wages and Benefits	18,691
Intergovernmental Payable	9,707
<i>Total Current Liabilities</i>	28,398
<i>Noncurrent Liabilities:</i>	
Compensated Absences Payable	13,227
<i>Total Noncurrent Liabilities</i>	13,227
<i>Total Liabilities</i>	41,625
<u>Net Assets:</u>	
Invested in Capital Assets	34,592
Unrestricted	18,506
<i>Total Net Assets</i>	\$53,098

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Nonmajor Enterprise Funds
<u>Operating Revenues:</u>	
Food Service	\$170,674
Classroom Materials and Fees	17,846
	188,520
<i>Total Operating Revenues</i>	<i>188,520</i>
<u>Operating Expenses:</u>	
Salaries	102,674
Fringe Benefits	60,667
Purchased Services	2,928
Materials and Supplies	134,589
Depreciation	5,066
	305,924
<i>Total Operating Expenses</i>	<i>305,924</i>
<i>Operating Loss</i>	<i>(117,404)</i>
<u>Nonoperating Revenues:</u>	
Donated Commodities	16,292
Interest	1,703
Federal and State Subsidies	96,282
	114,277
<i>Total Nonoperating Revenues</i>	<i>114,277</i>
<i>Income before Transfers</i>	<i>(3,127)</i>
Transfers In	3,208
	81
<i>Change in Net Assets</i>	<i>81</i>
<i>Net Assets at Beginning of Year</i>	<i>53,017</i>
<i>Net Assets at End of Year</i>	<i><u><u>\$53,098</u></u></i>

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Nonmajor Enterprise Funds
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows used for Operating Activities:</u>	
Cash Received from Customers	\$187,742
Cash Payments to Employees for Services	(102,802)
Cash Payments for Employee Benefits	(64,019)
Cash Payments for Goods and Services	(121,921)
	(101,000)
<i>Net Cash used for Operating Activities</i>	(101,000)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Cash Received from Operating Grants	96,282
Transfer In from Other Funds	3,208
	99,490
<i>Net Cash from Noncapital Financing Activities</i>	99,490
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	1,583
	1,583
<i>Net Cash from Investing Activities</i>	1,583
<i>Net Increase in Cash and Cash Equivalents</i>	73
<i>Cash and Cash Equivalents at Beginning of Year</i>	55,404
<i>Cash and Cash Equivalents at End of Year</i>	\$55,477
 <u>Reconciliation of Operating Loss</u>	
<u>to Net Cash used for Operating Activities:</u>	
Operating Loss	(\$117,404)
<i>Adjustments:</i>	
Depreciation	5,066
Donated Commodities Used During Year	16,292
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash used for Operating Activities:</u>	
<i>(Increase) Decrease in Assets:</i>	
Accounts Receivable	(778)
Inventory Held for Resale	(696)
<i>Increase (Decrease) in Liabilities:</i>	
Accrued Wages and Benefits	1,107
Compensated Absences Payable	(128)
Intergovernmental Payable	(4,459)
	(4,954)
Total Adjustments	(4,954)
<i>Net Cash used for Operating Activities</i>	(\$101,000)

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2006**

	<u>Agency Fund</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,797</u>
<u>Liabilities:</u>	
Due to Students	<u>15,797</u>
<i>Total Liabilities</i>	<u><u>\$15,797</u></u>

The notes to the financial statements are an integral part of this statement.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Walnut Township Local School District (the "District") is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio. The District provides educational services as authorized by State statute and/or federal guidelines. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Board controls the District's facilities staffed by 30 classified and 48 teaching personnel and 3 administrative employees providing education to approximately 682 students.

Reporting Entity

The financial reporting entity consists of the stand-alone government, component units, and other governmental organizations that are included to ensure the financial statements of the District are not misleading or incomplete. The stand-alone government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the Walnut Township Local School District, this includes general operations, student guidance, extra-curricular activities, educational media, care and upkeep of grounds and buildings, student transportation and food service.

Component units are legally separate organizations for which the District appoints a voting majority of the organization's governing 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; the District is legally obligated or has otherwise assumed the responsibility to finance the organization; or 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 approved the budget, the issuance of debt, or the levying of taxes. No separate governmental units meet the criteria for inclusion as a component unit.

The District participates in two jointly governed organizations and one insurance purchasing pool. These organizations are the Metropolitan Educational Council, Central Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

A. Basis of Presentation (Continued)

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. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

The following are the District's major governmental funds:

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

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

B. Fund Accounting (Continued)

Governmental Funds (Continued)

Bond Retirement Fund- This debt service fund is used to account for the accumulation of resources and payment of general obligation bonds.

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

Proprietary Funds

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows. The District's proprietary funds are classified as enterprise. Enterprise funds may be used to account for any activities for which a fee is charged to external users for goods or services. The proprietary funds of the District account for transactions related to the food service operations and the sale of school supplies.

Fiduciary Fund

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. The District does not have trust funds. 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. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary and fiduciary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District's finances and meets the cash flow needs of its proprietary activities.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible 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, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

D. Basis of Accounting (Continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during fiscal year 2006 (See Note 4).

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during fiscal year 2006.

F. Cash and Cash Equivalents

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

During the fiscal year 2006, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

The District credits interest to the General and Food Service (Enterprise) Funds. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$138,851, which includes \$53,421 assigned from other District funds.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

F. Cash and Cash Equivalents (Continued)

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 presented on the financial statements as cash equivalents.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale. The cost of inventory items is recorded as an expenditure in the governmental funds and as an expense in the proprietary funds when consumed or used.

H. Prepaid Items

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. As of June 30, 2006, the District reported restricted assets in the General Fund which represent cash and cash equivalents set aside for textbooks, capital improvements, and a budget stabilization reserve.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary and fiduciary funds. 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. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

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 one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

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

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

J. Capital Assets (Continued)

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	10 years
Library Books and Textbooks	10 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. There were no interfund receivables/payables at June 30, 2006.

L. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences" as interpreted by Interpretation No. 6 of the GASB, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 10 years of service with the District.

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

For the governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees will be paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

M. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term liabilities payable from proprietary funds are reported on the proprietary fund financial statements.

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

N. Net Assets

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

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

O. Fund Balance Reserves

The District reserves those portions of fund balance 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 balance reserves have been established for encumbrances, property taxes, set asides, and bus purchases.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for the food service operations and sale of school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of that fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

Q. Interfund Transactions

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

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

R. Estimates

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

NOTE 3 - NEW GASB PRONOUNCEMENTS

For fiscal year 2006, the District implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits". The implementation of GASB Statement No. 46 or 47 had no effect on the disclosure requirements or the prior period fund balances of the District.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

	Net Change in Fund Balance
	General
GAAP Basis	\$605,702
<i>Adjustments:</i>	
Revenue Accruals	79,619
Expenditure Accruals	(104,770)
Encumbrances	(13,437)
Budget Basis	<u>\$567,114</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

State law requires the classification of 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies 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 accounts including passbook accounts.

Protection of the 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 money deposited with the institution.

State Statute permits 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;

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value daily, and that the term of agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions or other units or agencies of this state or its political subdivision;
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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes, for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.
9. Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year-end, the District had \$25 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".

Deposits: At June 30, 2006, the carrying amount of all the District deposits were \$2,817,130. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", as of June 30, 2006, \$2,706,829 of the District's bank balance of \$2,806,829 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Deposits: (Continued)

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.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. The District only invests in STAR Ohio which is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Carrying and Fair Value	Maturity Less Than 6 Months
STAR Ohio	\$47,217	\$47,217

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair value by limiting investment portfolio maturities to five years or less.

Credit Risk - Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to Star Ohio. Standard and Poor's has assigned Star Ohio an AAAM money market rating.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-five percent of true value. The assessed values upon which the fiscal year 2006 taxes were collected are:

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES (Continued)

	2005 Second - Half Collections		2006 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$102,390,080	92.3%	\$103,571,600	92.3%
Public Utility Personal	7,668,140	6.9%	7,943,140	7.1%
Tangible Personal Property	872,989	0.8%	673,698	0.6%
Total Assessed Value	\$110,931,209	100.0%	\$112,188,438	100.0%
Tax rate per \$1,000 of assessed valuation	\$37.70		\$37.70	

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 earlier or later payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fairfield 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 the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. Walnut Township Local School District had \$279,013 available for advance at June 30, 2006.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 7- INCOME TAX

The District levies a voted tax of 1.25 percent for general operations on the income of residents. The tax became effective on January 1, 2005, and continues for ten years. Employers of residents are required to withhold income tax on compensation and remit the tax to the state. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue of \$906,612 is credited to the General Fund for fiscal year 2006.

NOTE 8- RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (tuition and fees), 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 intergovernmental receivables follow:

	Amounts
<i>General Fund:</i>	
State Reimbursements	<u>\$44,497</u>
 <i>Total Intergovernmental Receivables</i>	 <u><u>\$44,497</u></u>

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9- CAPITAL ASSETS

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

Asset Category	Balance at July 1, 2005	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2006
Governmental Activities				
<i>Nondepreciable Capital Assets:</i>				
Land	\$47,950	\$0	\$0	\$47,950
<i>Depreciable Capital Assets:</i>				
Land Improvements	352,360	0	0	352,360
Buildings and Improvements	11,211,782	0	0	11,211,782
Furniture, Fixtures and Equipment	1,685,810	40,695	(58,764)	1,667,741
Vehicles	621,158	0	0	621,158
Library Books and Textbooks	188,664	3,530	0	192,194
Total Depreciable Capital Assets	14,059,774	44,225	(58,764)	14,045,235
Total Capital Assets	14,107,724	44,225	(58,764)	14,093,185
<i>Accumulated Depreciation:</i>				
Land Improvements	(149,727)	(5,347)	0	(155,074)
Buildings and Improvements	(4,332,504)	(192,546)	0	(4,525,050)
Furniture, Fixtures and Equipment	(1,154,077)	(76,721)	44,182	(1,186,616)
Vehicles	(416,431)	(37,253)	0	(453,684)
Library Books and Textbooks	(83,234)	(11,292)	0	(94,526)
Total Accumulated Depreciation	(6,135,973)	(323,159)	44,182	(6,414,950)
Governmental Activities Capital Assets, Net	<u>\$7,971,751</u>	<u>(\$278,934)</u>	<u>(\$14,582)</u>	<u>\$7,678,235</u>

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9- CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$170,453
Special	13,466
Vocational	5,001
<i>Support Services:</i>	
Pupils	13,986
Instructional Staff	16,466
Board of Education	596
Administration	21,235
Fiscal	8,182
Operation and Maintenance of Plant	14,375
Pupil Transportation	46,002
Central	650
Extracurricular Activities	12,747
Total Depreciation Expense	\$323,159

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

Asset Category	Balance at July 1, 2005	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2006
Business-Type Activities				
<i>Depreciable Capital Assets:</i>				
Furniture, Fixtures and Equipment	\$115,555	\$0	(\$12,262)	\$103,293
<i>Accumulated Depreciation:</i>				
Furniture, Fixtures and Equipment	(75,897)	(5,066)	12,262	(68,701)
Business-Type Activities Capital Assets, Net	\$39,658	(\$5,066)	\$0	\$34,592

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District contracted with Auto-Owner's Mutual Insurance Company for fleet insurance and Harcum-Schuett Insurance Agency, Inc. for liability insurance and inland marine coverage. Coverages provided are as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$18,699,364
Inland Marine Coverage (\$250 deductible)	78,855
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000
<i>General Liability:</i>	
Per Occurrence	1,000,000
Total Per Year	3,000,000
<i>Public Official Bonds:</i>	
Treasurer	50,000
Superintendent	25,000
Board President	25,000
Public Employee Dishonesty	5,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

Workers' Compensation

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). 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 district 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 of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple employer 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 or by visiting the SERS website at ohsers.org.

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 rate for the District 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 used to fund pension obligations. For fiscal year 2005, 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, 2005, and 2004 were \$53,178, \$85,475, and \$94,656, respectively; 31.14 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$36,621 representing the unpaid contribution for fiscal year 2006 is recorded as a liability.

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 the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11- DEFINED BENEFIT PENSION PLANS- (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 salary and the District was required to contribute 14 percent. Of the District's contribution, 13 percent was used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by 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 School District's required contributions for pension obligations to DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$321,154, \$360,100, and \$318,920, respectively; 81.67 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$58,881 representing the unpaid contribution for fiscal year 2006 is recorded as a liability.

Social Security System

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

NOTE 12 - POST-EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$24,704 during fiscal year 2006.

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

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

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12- POST-EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll in 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 has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$27,121.

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 health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees, and administrators who are contracted to work 260 days per year, earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days for the Superintendent, 220 days for the Treasurer, 220 days for teachers, and 220 days for classified employees. Upon retirement, all employees receive one-fourth of the total sick leave accumulation.

Insurance Benefits

The District provides health, drug, and dental insurance for all eligible employees through Medical Mutual of Ohio. The District pays medical and drug monthly premiums for staff for family and single coverage. The District pays the total monthly premium for dental insurance coverage for family and single employees. The District does not provide vision insurance to its employees. The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Mutual of Ohio. Premiums are paid from the same funds that pay employees' salaries.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - INTERFUND ACTIVITY

Interfund balances at June 30, 2006 were comprised of the following interfund receivable and interfund payables:

Transfers From	Transfers To		Total
	Nonmajor Special Revenue Funds	Nonmajor Enterprise Funds	
General	\$64,455	\$3,208	\$67,663
Total	\$64,455	\$3,208	\$67,663

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, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the fiscal year 2006, the District made transfers of \$60,000 from the General Fund to the Special Termination Fund to make future termination/retirement payments.

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in the governmental activities long-term obligations of the District during fiscal year 2006 were as follows:

	Issue Date	Interest Rate	Principal Outstanding July 1, 2005	Additions	Deletions	Principal Outstanding June 30, 2006	Due in One Year
Governmental Activities							
General Obligation Bonds	1985	9.25%	\$345,000	\$0	\$115,000	\$230,000	\$115,000
General Obligation Bonds	1995	5.77%	2,760,000	0	110,000	2,650,000	115,000
Total Long-Term Bonds			3,105,000	0	225,000	2,880,000	230,000
Compensated Absences			300,116	83,923	110,723	273,316	56,066
Total Government Activities			\$3,405,116	\$83,923	\$335,723	\$3,153,316	\$286,066

The \$3,105,000 of outstanding general obligation bonds relate to two projects. The first project was approved in 1985, for which bonds were issued for the purpose of an addition, improving and equipping the high school building and improving the site thereof. The bonds mature December 2007, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof. The issue has an outstanding balance of \$230,000 with an interest rate of 9.25%.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15- LONG-TERM OBLIGATIONS (Continued)

The second bond issue outstanding relates to a project approved in 1995, for which bonds were issued for the purpose of renovating, repairing and improving school facilities and constructing a media/computer lab addition to the high school and improving the site thereof. These bonds mature in December 2020, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Revised Code and Section 133.09 thereof. The issue has an outstanding balance of \$2,650,000 with an interest rate of 5.77%.

Principal and interest requirements, which are paid out of the Debt Service Fund, to retire general obligation debt outstanding at June 30, 2006 are as follows:

Fiscal Year June 30	Principal	Interest	Total
2007	\$230,000	\$176,691	\$406,691
2008	240,000	158,613	398,613
2009	130,000	145,390	275,390
2010	135,000	137,175	272,175
2011	145,000	128,495	273,495
2012-2016	855,000	493,055	1,348,055
2017-2021	1,145,000	185,225	1,330,225
Total	<u>\$2,880,000</u>	<u>\$1,424,644</u>	<u>\$4,304,644</u>

The District's overall legal debt margin was \$7,216,959 with an unvoted debt margin of \$112,188 at June 30, 2006.

The compensated absences of the governmental activities are paid from the fund from which the respective employee's salaries are paid. Most of the District's employees of the governmental activities are paid from the General Fund.

Changes in the business-type activities long-term obligations of the District during fiscal year 2006 were as follows:

	Principal Outstanding July 1, 2005	Additions	Deletions	Principal Outstanding June 30, 2006	Amount Due in One Year
Business-Type Activities					
Compensated Absences Payable	\$13,355	\$5,894	\$6,022	\$13,227	\$0

The compensated absences of the business-type activities are paid from the fund from which the respective employee's salaries are paid. The District's employees of the business-type activities are paid from the Food Service Fund.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 16- STATUTORY SET ASIDES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. Effective April 10, 2001, Senate Bill 345 eliminated the Statutory requirement for a budget reserve; however, the amount of the budget reserve funded with workers' compensation refunds or rebates may only be used to offset a budget deficit or certain other expenditures as directed by the Board of Education.

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

Account	Textbook	Capital Improvement	Budget Stabilization	Totals
Set Aside Balances Carried Forward as of June 30, 2005	\$66,304	\$0	\$50,684	\$116,988
FY 2006 Set Aside Required	108,704	108,704	0	217,408
FY 2006 Qualifying Disbursements	(128,649)	(75,403)	0	(204,052)
Set Aside Balances Carried Forward to FY 2006	46,359	33,301	50,684	130,344
Set Aside Reserve Balances at June 30, 2006	\$46,359	\$33,301	\$50,684	
Total Restricted Assets				<u>\$130,344</u>

The District had qualifying disbursements during the year that reduced the textbook and capital improvement set aside amounts to zero. For the textbook set aside, if expenditures exceed current year or accumulated set aside requirements, or if the actual reserve cash balance exceeds the set aside requirements, the excess may be carried forward to offset future textbook set aside requirements. For the capital improvement set aside, only an actual reserve cash balance that exceeds the set aside requirements may be carried forward to offset future capital improvement set aside requirements.

NOTE 17- JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Education Council (MEC)

MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

**WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 17- JOINTLY GOVERNED ORGANIZATIONS (Continued)

Central Ohio Special Education Regional Resource Center (COSERRC)

COSERRC is a not for profit Council of Governments of various school districts in Central Ohio. The District participates in services that assist the District in complying with mandates for educating children with disabilities. There is no financial commitment made by the District. COSERRC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for COSERRC.

NOTE 18- INSURANCE PURCHASING POOL

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

NOTE 19 - CONTINGENCIES

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

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$19,891 per year. A portion of the refund may be recovered from additional State entitlement payments.



Mary Taylor, CPA

Auditor of State

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

Walnut Township Local School District
Fairfield County
11850 Lancaster Street
Millersport, Ohio 43046

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Walnut Township Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 18, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 18, 2007, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

April 18, 2007



Mary Taylor, CPA
Auditor of State

WALNUT TOWNSHIP LOCAL SCHOOL DISTRICT
FAIRFIELD 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
JUNE 7, 2007