



**Auditor of State
Betty Montgomery**

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Van Wert City School District
Van Wert County
205 W. Crawford Street
Van Wert, Ohio 45891

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Van Wert City School District, Van Wert County, (the School District), as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the fiscal 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 February 28, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

February 28, 2006

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Van Wert City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2005 are as follows:

- In total, net assets increased \$1,921,078, or 26 percent, a fairly significant change from the prior fiscal year. This increase is primarily the result of the increase in income tax revenue from the one percent levy that was effective during January 2004.
- General revenues were \$18,683,153 for fiscal year 2005, or 84 percent of all revenues, and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.
- During November 2001, the voters of the School District approved a 7.2 mill school building construction bond issue. This issue is for the construction of a new middle school/high school complex with a performing arts center and is an expedited Ohio School Facilities Commission project. Construction is proceeding on schedule. Estimated completion date for the school section of the project is September 2006 and January 2007 for the Performing Arts section. We expect to move into the new school facility early in the 2006/2007 school year.
- The School District's five-year forecast, approved by the Board of Education at the November 16, 2005, meeting illustrates that estimated operating revenues are expected to exceed estimated operating expenses in each forecasted fiscal year through fiscal year 2007. It is estimated that operating expenses will exceed operating revenues during fiscal years 2008, 2009, and 2010. Voters of the School District approved a one percent five-year income tax levy. This levy is expected to generate approximately \$2,200,000 in operating revenues annually. Calendar year 2008 is the last year of collection of this tax. It will be necessary to seek renewal of the income tax during calendar year 2008 so there is no interruption in collection. All property tax levies for operating funds are continuing levies; however, Sate legislation provides for the phase out of the personal tangible tax. The personal tangible tax currently provides approximately 25 percent of the local tax revenue for the School District. Temporary reimbursement of the loss of funds is scheduled to continue through fiscal year 2010 and then the reimbursement will be phased out. The phase out of the reimbursement is to be completed during fiscal year 2018 with the eventual net loss to the School District estimated to be \$663,500 per year. A lack of significant increases in State foundation funding has also negatively affected our balances. The Administration, with the approval of the Board of Education, has implemented a cost reduction plan which has reduced operating expenditures by \$700,000 over the two-year period ending June 30, 2005. The Administration will continue to make every effort to reduce costs while maintaining an exceptional educational program.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Van Wert City School District, the General Fund, Bond Retirement debt service, and Construction capital projects fund are the most significant funds.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District's activities are reflected as governmental activities including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Bond Retirement debt service fund, and Construction capital projects fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

**Table 1
Net Assets**

	Governmental Activities	
	2005	2004
Assets:		
Current and Other Assets	\$30,534,378	\$39,041,383
Capital Assets, Net	19,065,968	6,748,600
Total Assets	49,600,346	45,789,983
Liabilities:		
Current and Other Liabilities	12,449,793	10,449,883
Long-Term Liabilities	27,938,920	28,049,545
Total Liabilities	40,388,713	38,499,428
Net Assets:		
Invested in Capital Assets, Net of Related Debt	4,973,115	5,225,498
Restricted	4,623,646	3,495,877
Unrestricted (Deficit)	(385,128)	(1,430,820)
Total Net Assets	\$9,211,633	\$7,290,555

The above illustration representing the School District's statement of net assets for fiscal year 2005 and fiscal year 2004 reveals some significant changes. In general, two factors contributed to the overall decrease in current and other assets. Due to the size of the decrease, it may be surprising that there was an increase in cash and cash equivalents of over \$887,000. This is the result of a full year receipt of income taxes from the one percent levy that was effective during January 2004. This increase is also the reason for the improvement in unrestricted net assets. Investments with the School District's fiscal agent decreased over \$10 million and resulted in the corresponding increase in capital assets.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2005 and fiscal year 2004.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues:		
Charges for Services	\$1,058,187	\$974,076
Operating Grants, Contributions, and Interest	2,180,027	1,980,229
Capital Grants, Contributions, and Contributions	350,190	61,551
Total Program Revenues	<u>3,588,404</u>	<u>3,015,856</u>
General Revenues:		
Property Taxes Levied for General Purposes	6,129,402	6,175,203
Property Taxes Levied for Debt Service	1,458,091	1,449,842
Property Taxes Levied for Permanent Improvements	414,076	414,460
Income Taxes Levied for General Purposes	2,159,093	658,242
Grants and Entitlements	8,075,474	8,095,964
Interest	134,252	392,108
Gifts and Donations	97,470	62,599
Miscellaneous	215,295	167,552
Total General Revenues	<u>18,683,153</u>	<u>17,415,970</u>
Total Revenues	<u>22,271,557</u>	<u>20,431,826</u>
Expenses		
Instruction:		
Regular	\$9,268,102	\$9,236,326
Special	2,270,456	2,376,233
Vocational	112,011	143,325
Support Services:		
Pupils	714,327	635,697
Instructional Staff	1,264,537	999,326
Board of Education	50,904	53,559
Administration	1,425,173	1,450,118
Fiscal	515,292	517,915
Operation and Maintenance of Plant	1,402,656	1,296,212
Pupil Transportation	342,879	333,059
Central	289,127	221,521
Non-Instructional Services	750,313	732,239
Extracurricular Activities	549,294	488,899
Interest and Fiscal Charges	1,395,408	1,352,654
Total Expenses	<u>20,350,479</u>	<u>19,837,083</u>
Increase in Net Assets	<u>\$1,921,078</u>	<u>\$594,743</u>

Program revenues make up a little more than 16 percent of total revenues and are primarily represented by restricted intergovernmental revenues, tuition and fees, charges for extracurricular activities, and food service sales. While overall program revenues were up slightly from the prior fiscal year, the percentage of program revenues to total revenues remained consistent with the prior fiscal year.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

General revenues which continued to remain at approximately 84 percent of total revenues are almost entirely property taxes, income taxes, and unrestricted State entitlements (98 percent). Again, as the percentage of general revenues remained fairly constant with the prior fiscal year, there was an increase in income tax revenues realized from the 1 percent levy.

Like revenues, expenses remained very comparable to fiscal year 2004 with only minor fluctuations within any expense program. The major program expenses for governmental activities are for instruction, which are approximately 57 percent of total governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation are 11 percent of governmental expenses. Maintenance of the School District's facilities also represents a significant expense, almost seven percent. Therefore, 75 percent of the School District's expenses are related to the primary functions of providing facilities and delivering education. Non-instructional services costs include not only the operations of the School District's cafeteria, but also the flow-through costs associated with St. Mary of Assumption parochial school. Interest and fiscal charges were almost seven percent of total expenses for fiscal year 2005 due to interest on general obligation bonds.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$9,268,102	\$9,236,326	\$7,965,910	\$8,393,684
Special	2,270,456	2,376,233	879,712	1,199,967
Vocational	112,011	143,325	98,125	114,246
Support Services:				
Pupils	714,327	635,697	697,831	617,402
Instructional Staff	1,264,537	999,326	1,263,855	998,070
Board of Education	50,904	53,559	50,904	53,559
Administration	1,425,173	1,450,118	1,425,173	1,450,118
Fiscal	515,292	517,915	511,242	511,115
Operation and Maintenance of Plant	1,402,656	1,296,212	1,402,656	1,296,212
Pupil Transportation	342,879	333,059	335,184	324,583
Central	289,127	221,521	268,127	200,521
Non-Instructional Services	750,313	732,239	59,943	12,313
Extracurricular Activities	549,294	488,899	408,005	296,783
Interest and Fiscal Charges	1,395,408	1,352,654	1,395,408	1,352,654
Total Expenses	<u>\$20,350,479</u>	<u>\$19,837,083</u>	<u>\$16,762,075</u>	<u>\$16,821,227</u>

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

A review of the above table reveals, once again, that fiscal year 2005 was very similar to fiscal year 2004. There were few fluctuations in the total cost or net cost of services. As can be seen, the dependence on general revenues for most programs is significant. Only several of the School District's programs receive a notable amount of program revenues to offset program costs. One of those programs is special instruction as over 61 percent of this program is provided for through operating grants restricted for special instruction purposes. The non-instructional program received 92 percent of its funding through program revenues. This includes not only cafeteria sales and state and federal subsidies and donated commodities for food service operations, it also includes operating grants received on behalf of St. Mary of Assumption parochial school. Lastly, over 25 percent of extracurricular activities expenses are provided for through program revenues. This is primarily from music and athletic fees, ticket sales, and gate receipts.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Of the School District's three major funds, two had very significant changes in fund balance. For the General Fund, fund balance increased \$1,362,792, or 71 percent. Most of this increase is the result of the one percent income tax levy as discussed previously. Conversely, the Construction Fund had a 51 percent decrease in fund balance. This is due to resources being spent for the ongoing construction of the middle school/high school and performing arts center.

General Fund Budgeting Highlights

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

During fiscal year 2005, the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were just over 1 percent and not significant. The final amended certificate closely matched actual revenues to the final budget; therefore, there were few differences.

Differences from the original to final budget and the final budget to actual expenditures were also not significant, two and three percent, respectively.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$19,065,968 invested in capital assets (net of accumulated depreciation). This was more than triple the capital assets reported in fiscal year 2004 and is due to construction on the middle school/high school. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2004, the School District had outstanding general obligation bonds, in the amount of \$25,943,649. The bonds were issued for the construction of a new middle school/high school. The bonds were issued for a twenty-eight year period, with final maturity in fiscal year 2031. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Current Issues

The passage of the one percent five-year income tax levy during November, 2003, should allow the School District to continue to operate through fiscal year 2007; however, the scheduled elimination of the personal tangible taxes along with the lack of significant increases in State funding will result in the School District being forced back to the ballot to ask local voters to not only renew the current percent income tax during calendar year 2008 but to also increase either the local income tax rate or local property tax rate just to replace the loss in revenue. Additional local increases will then be necessary to cope with inflationary cost increases.

During fiscal year 2005, the net cost of open enrollment for the School District was \$416,659 and in fiscal year 2006 the net cost is estimated at \$587,431. The School Board, Administration, and staff are continuing to work to reduce this cost. It is hoped that construction of the new middle school/high school will have a positive impact on open enrollment as well as a positive impact on economic development for the Van Wert area.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mike Owens, Treasurer, Van Wert City School District, 205 West Crawford Street, Van Wert, Ohio 45891.

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**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$5,977,446
Cash and Cash Equivalents with Fiscal Agent	9,375
Cash and Cash Equivalents with Escrow Agent	224,217
Investments with Fiscal Agent	13,825,651
Accounts Receivable	19,023
Accrued Interest Receivable	5,019
Intergovernmental Receivable	269,431
Prepaid Items	185,679
Inventory Held for Resale	19,265
Materials and Supplies Inventory	4,596
Income Taxes Receivable	1,000,997
Property Taxes Receivable	8,669,311
Unamortized Issuance Costs	324,368
Nondepreciable Capital Assets	14,949,056
Depreciable Capital Assets, Net	4,116,912
 Total Assets	 49,600,346
 Liabilities:	
Accounts Payable	20,464
Contracts Payable	1,882,953
Accrued Wages and Benefits Payable	1,946,597
Matured Compensated Absences Payable	23,117
Intergovernmental Payable	450,077
Retainage Payable	302,954
Accrued Interest Payable	87,907
Deferred Revenue	7,735,724
Long-Term Liabilities:	
Due Within One Year	359,143
Due in More Than One Year	27,579,777
 Total Liabilities	 40,388,713
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,973,115
Restricted For:	
Set Asides	52,993
Debt Service	486,160
Capital Projects	3,571,458
Other Purposes	418,808
Needy Students/Educational Purposes	
Expendable	16,133
Nonexpendable	78,094
Unrestricted (Deficit)	(385,128)
 Total Net Assets	 \$9,211,633

See Accompanying Notes to Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$9,268,102	\$601,040	\$358,657	\$342,495	(\$7,965,910)
Special	2,270,456		1,390,744		(879,712)
Vocational	112,011		13,886		(98,125)
Support Services:					
Pupils	714,327		16,496		(697,831)
Instructional Staff	1,264,537		682		(1,263,855)
Board of Education	50,904				(50,904)
Administration	1,425,173				(1,425,173)
Fiscal	515,292	4,050			(511,242)
Operation and Maintenance of Plant	1,402,656				(1,402,656)
Pupil Transportation	342,879			7,695	(335,184)
Central	289,127		21,000		(268,127)
Non-Instructional Services	750,313	324,163	366,207		(59,943)
Extracurricular Activities	549,294	128,934	12,355		(408,005)
Interest and Fiscal Charges	1,395,408				(1,395,408)
Total Governmental Activities	<u>\$20,350,479</u>	<u>\$1,058,187</u>	<u>\$2,180,027</u>	<u>\$350,190</u>	<u>(16,762,075)</u>

General Revenues:

Property Taxes Levied for General Purposes	6,129,402
Property Taxes Levied for Debt Service	1,458,091
Property Taxes Levied for Permanent Improvements	414,076
Income Taxes Levied for General Purposes	2,159,093
Grants and Entitlements not Restricted to Specific Programs	8,075,474
Interest	134,252
Gifts and Donations	97,470
Miscellaneous	215,295
Total General Revenues	<u>18,683,153</u>
Change in Net Assets	1,921,078
Net Assets at Beginning of Year	<u>7,290,555</u>
Net Assets at End of Year	<u>\$9,211,633</u>

See Accompanying Notes to the Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Construction</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$3,693,551	\$307,770	\$67,792	\$1,847,645	\$5,916,758
Cash and Cash Equivalents with Fiscal Agent			9,375		9,375
Investments with Fiscal Agent			13,825,651		13,825,651
Accounts Receivable	17,288			1,735	19,023
Accrued Interest Receivable	4,740			279	5,019
Intergovernmental Receivable	16,095			253,336	269,431
Interfund Receivable	103,750				103,750
Prepaid Items	165,484		5,916	14,279	185,679
Inventory Held for Resale				19,265	19,265
Materials and Supplies Inventory				4,596	4,596
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	60,688				60,688
Cash and Cash Equivalents with Escrow Agent			224,217		224,217
Income Taxes Receivable	1,000,997				1,000,997
Property Taxes Receivable	6,681,751	1,542,709		444,851	8,669,311
Total Assets	<u>11,744,344</u>	<u>1,850,479</u>	<u>14,132,951</u>	<u>2,585,986</u>	<u>30,313,760</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts Payable	6,732			13,732	20,464
Contracts Payable			1,882,953		1,882,953
Accrued Wages and Benefits Payable	1,773,881			172,716	1,946,597
Matured Compensated Absences Payable	23,117				23,117
Intergovernmental Payable	399,506			50,571	450,077
Interfund Payable				103,750	103,750
Retainage Payable			78,737		78,737
Deferred Revenue	6,257,283	1,390,094		644,775	8,292,152
Payable from Restricted Assets:					
Retainage Payable			224,217		224,217
Total Liabilities	<u>8,460,519</u>	<u>1,390,094</u>	<u>2,185,907</u>	<u>985,544</u>	<u>13,022,064</u>
Fund Balances:					
Reserved for Property Taxes	583,395	152,615		41,625	777,635
Reserved for Budget Stabilization	52,993				52,993
Reserved for Bus Purchase	7,695				7,695
Reserved for Encumbrances	79,686		23,229,758	67,706	23,377,150
Unreserved, Reported in:					
General Fund	2,560,056				2,560,056
Special Revenue Funds				86,965	86,965
Debt Service Fund		307,770			307,770
Capital Projects Funds (Deficit)			(11,282,714)	1,309,919	(9,972,795)
Permanent Fund				94,227	94,227
Total Fund Balances	<u>3,283,825</u>	<u>460,385</u>	<u>11,947,044</u>	<u>1,600,442</u>	<u>17,291,696</u>
Total Liabilities and Fund Balances	<u>\$11,744,344</u>	<u>\$1,850,479</u>	<u>\$14,132,951</u>	<u>\$2,585,986</u>	<u>\$30,313,760</u>

See Accompanying Notes to the Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total Governmental Fund Balances \$17,291,696

Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 19,065,968

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$16,337
Accrued Interest Receivable	4,718
Intergovernmental Receivable	241,382
Income Taxes Receivable	138,039
Property Taxes Receivable	<u>155,952</u>

556,428

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 324,368

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(87,907)
General Obligation Bonds Payable	(25,943,649)
Compensated Absences Payable	<u>(1,995,271)</u>

(28,026,827)

Net Assets of Governmental Activities \$9,211,633

See Accompanying Notes to the Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Construction</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues:					
Property Taxes	\$6,088,606	\$1,450,476		\$411,411	\$7,950,493
Income Taxes	2,135,635				2,135,635
Intergovernmental	8,566,894	180,322		1,420,613	10,167,829
Interest	136,138		342,495	3,103	481,736
Tuition and Fees	599,613				599,613
Extracurricular Activities				128,959	128,959
Charges for Services	4,050			324,163	328,213
Gifts and Donations	53,335			64,647	117,982
Miscellaneous	98,081			116,412	214,493
Total Revenues	<u>17,682,352</u>	<u>1,630,798</u>	<u>342,495</u>	<u>2,469,308</u>	<u>22,124,953</u>
Expenditures:					
Current:					
Instruction:					
Regular	8,964,757			152,656	9,117,413
Special	1,671,262			551,112	2,222,374
Vocational	108,289				108,289
Support Services:					
Pupils	686,898			15,973	702,871
Instructional Staff	871,761			401,324	1,273,085
Board of Education	50,904				50,904
Administration	1,375,893			27,900	1,403,793
Fiscal	442,974	40,572	22,433	12,809	518,788
Operation and Maintenance of Plant	1,406,435			44,994	1,451,429
Pupil Transportation	314,512				314,512
Central	172,289			93,823	266,112
Non-Instructional Services				751,969	751,969
Extracurricular Activities	253,586			292,647	546,233
Capital Outlay			12,540,695	49,422	12,590,117
Debt Service:					
Principal Retirement		485,000			485,000
Interest and Fiscal Charges		1,096,113			1,096,113
Total Expenditures	<u>16,319,560</u>	<u>1,621,685</u>	<u>12,563,128</u>	<u>2,394,629</u>	<u>32,899,002</u>
Changes in Fund Balances	1,362,792	9,113	(12,220,633)	74,679	(10,774,049)
Fund Balances at Beginning of Year	<u>1,921,033</u>	<u>451,272</u>	<u>24,167,677</u>	<u>1,525,763</u>	<u>28,065,745</u>
Fund Balances at End of Year	<u>\$3,283,825</u>	<u>\$460,385</u>	<u>\$11,947,044</u>	<u>\$1,600,442</u>	<u>\$17,291,696</u>

See Accompanying Notes to the Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Changes in Fund Balances - Total Governmental Funds (\$10,774,049)

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

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

Capital Outlay - Nondepreciable Capital Assets	\$12,565,531	
Capital Outlay - Depreciable Capital Assets	88,194	
Depreciation	<u>(305,981)</u>	
		12,347,744

The cost of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a gain on disposal of capital assets on the statement of activities.

Proceeds of Sale of Fixed Assets	(53,500)	
Gain on Disposal	<u>23,124</u>	
		(30,376)

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

Property Taxes	51,076	
Income Taxes	23,458	
Intergovernmental	70,171	
Interest	(1,968)	
Tuition and Fees	1,427	
Miscellaneous	<u>2,440</u>	
		146,604

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

485,000

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. Premiums and issuance costs are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities.

Accrued Interest Payable	782	
Annual Accretion	(308,743)	
Amortization of Premium	12,886	
Amortization of Issuance Costs	<u>(4,220)</u>	
		(299,295)

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

Intergovernmental Payable	123,968	
Compensated Absences Payable	<u>(78,518)</u>	
		<u>45,450</u>

Change in Net Assets of Governmental Activities \$1,921,078

See *Accompanying Notes to the Basic Financial Statements.*

**VAN VERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$6,065,553	\$5,919,820	\$5,919,820	
Income Taxes	1,624,005	1,664,582	1,664,582	
Intergovernmental	8,858,846	8,585,258	8,585,258	
Interest	75,000	65,555	64,679	(876)
Tuition and Fees	506,300	599,766	599,866	100
Charges for Services	6,800	6,800	6,800	
Gifts and Donations	20,000	53,335	53,335	
Miscellaneous	28,450	39,521	42,643	3,122
Total Revenues	17,184,954	16,934,637	16,936,983	2,346
Expenditures:				
Current:				
Instruction:				
Regular	9,159,112	9,299,607	9,019,738	279,869
Special	1,843,054	1,976,484	1,728,973	247,511
Vocational	103,372	104,370	117,500	(13,130)
Other	37,000	38,946	80,411	(41,465)
Support Services:				
Pupils	659,944	660,094	676,977	(16,883)
Instructional Staff	825,726	827,201	839,246	(12,045)
Board of Education	72,890	74,181	53,245	20,936
Administration	1,390,164	1,391,013	1,365,755	25,258
Fiscal	470,820	480,496	439,145	41,351
Operation and Maintenance of Plant	1,329,033	1,381,780	1,398,345	(16,565)
Pupil Transportation	373,191	375,340	303,374	71,966
Central	152,925	154,655	163,502	(8,847)
Extracurricular Activities	246,840	246,840	254,208	(7,368)
Total Expenditures	16,664,071	17,011,007	16,440,419	570,588
Excess of Revenues Over (Under) Expenditures	520,883	(76,370)	496,564	572,934
Other Financing Sources (Uses):				
Sale of Capital Assets		53,500	53,500	
Refund of Prior Year Expenditures		5,656	5,656	
Refund of Prior Year Receipts	(60,000)			
Advances In	103,199	103,199	103,199	
Advances Out		(103,750)	(103,750)	
Total Other Financing Sources (Uses)	43,199	58,605	58,605	
Changes in Fund Balance	564,082	(17,765)	555,169	572,934
Fund Balance at Beginning of Year	2,882,171	2,882,171	2,882,171	
Prior Year Encumbrances Appropriated	161,953	161,953	161,953	
Fund Balance at End of Year	\$3,608,206	\$3,026,359	\$3,599,293	\$572,934

See Accompanying Notes to the Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trust	Investment Trust	Agency
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$51,027		\$71,429
Cash and Cash Equivalents in Segregated Accounts		2,169,688	
Accrued Interest Receivable	131		
Total Assets	51,158	2,169,688	71,429
Liabilities:			
Due to Students			\$71,429
Net Assets:			
Held in Trust for Students	36,623		
Held in Trust for Individual Investment Account Endowments	14,535	2,169,688	
Total Net Assets	\$51,158	\$2,169,688	

See Accompanying Notes to the Basic Financial Statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Private Purpose Trust	Investment Trust
Additions:		
Interest	\$1,046	\$18,504
Gifts and Donations	7,200	
	8,246	18,504
Total Additions	8,246	18,504
Deductions:		
Capital Transactions		(1,456,605)
Non-Instructional Services	18,000	
	18,000	(1,456,605)
Total Deductions	18,000	(1,456,605)
Changes in Net Assets	(9,754)	1,475,109
Net Assets at Beginning of Year	60,912	694,579
Net Assets at End of Year	\$51,158	\$2,169,688

See Accompanying Notes to the Basic Financial Statements.

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**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Van Wert City School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1970 through the consolidation of existing land areas and school districts. The School District serves an area of approximately seventy square miles. It is located in Van Wert County, and includes the Village of Ohio City and Liberty Township. The School District is the 256th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by eighty-six classified employees, one hundred sixty-two certified teaching personnel, and eleven administrative employees who provide services to 2,249 students and other community members. The School District currently operates seven instructional buildings and a maintenance/transportation building.

A. Reporting Entity

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

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

The School District's reporting entity includes the following:

Non-Public School - Within the School District's boundaries, St. Mary of the Assumption is operated as private school. Current State legislation provides funding to the parochial school. The monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity is reflected in a special revenue fund of the School District.

The School District participates in five jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Vantage Joint Vocational School, the West Central Regional Professional Development Center, the Northwest Ohio Special Education Regional Resource Center, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Van Wert Area Schools Insurance Group. These organizations are presented in Notes 20 and 21 to the basic financial statements.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School District's basic financial statements consist 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.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

2. Fund Financial Statements

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

B. Fund Accounting

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

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

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

The School District's three major funds are the General Fund, the Bond Retirement debt service fund, and the Construction capital projects fund.

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

Bond Retirement Fund - The Bond Retirement debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on general obligation bonds issued for the construction of a new high school/middle school.

Construction Fund - The Construction capital projects fund is used to account for the construction of a new high school/middle school.

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

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The investment trust fund accounts for the Van Wert Area School Insurance Group, an individual investment account. The private purpose trust funds account for college scholarships for students after graduation and to provide aid to needy school children. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed and staff-managed activities.

C. Measurement Focus

1. Government-Wide Financial Statements

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

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust and investment trust funds are accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School 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. Revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, are 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 are reported as deferred revenue.

3. Expenses/Expenditures

On the accrual basis, 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 governmental funds.

E. Budgetary Process

All funds, except agency funds, 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 budgetary control selected by the Board is at the fund/object level for the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function level in the General Fund and the function and object level within all other funds are made by the School District Treasurer.

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

The appropriation resolution is subject to amendment throughout the fiscal 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 fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds, with the exception of the investment trust fund and the construction fund, are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The School District has resources currently being held by a financial institution for future investment. These monies are recorded as "Cash and Cash Equivalents with Fiscal Agent".

Cash and cash equivalents that are held in a separate account for the investment trust fund, Van Wert Area School Insurance Group, are recorded as "Cash and Cash Equivalents in Segregated Accounts".

Cash and cash equivalents that are held separately for the School District by escrow agents for payment of retainage to contractors upon project completion are recorded as "Cash and Cash Equivalents with Escrow Agent".

During fiscal year 2005, investments included nonnegotiable certificates of deposit, repurchase agreements, federal agency securities, U.S. Treasury notes, mutual funds, and STAR Ohio. Nonnegotiable certificates of deposit and repurchase agreements are reported at cost. Federal agency securities, U.S. Treasury notes, and mutual funds are reported at fair value, which is based on quoted market price or current share price. 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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 was \$136,138, which includes \$61,612 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

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

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted assets represent amounts required by State statute to be set aside for budget stabilization as well as unexpended revenues restricted for bus purchases. Resources set aside in separate escrow accounts whose use is limited to the payment of retainage to contractors are also reported as restricted.

J. Unamortized Issuance Costs

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges.

On the governmental fund financial statements, issuance costs are recognized as expenditures in the current period.

K. Capital Assets

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

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand five hundred dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 - 60 years
Buildings and Building Improvements	30 - 85 years
Furniture, Fixtures, and Equipment	5 - 50 years
Vehicles	10 - 20 years

L. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

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

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

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

O. Unamortized Premium

Bond premiums are deferred and amortized over the term of the bonds. Premiums are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, bond premiums are recognized as other financing sources in the current period.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. As of June 30, 2005, net assets restricted by enabling legislation were \$1,862,331.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Fund Balance Reserves

The School 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, budget stabilization, bus purchase, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

R. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

T. Estimates

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

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers", GASB Statement No. 40, "Deposit and Investment Risk Disclosure", and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other post-employment benefit plans. The implementation of this bulletin did not result in any change to the School District's financial statements.

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

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

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2005, the Lunchroom, SchoolNet Professional Development, Ohio Reads, Student Intervention, Title VI-B, Title I, Drug Free, Early Childhood Preschool, Title II-A, and Title II-D special revenue funds had deficit fund balances, in the amount of \$32,913, \$14, \$275, \$20,930, \$79,972, \$55,496, \$500, \$6,972, \$40,265, and \$5,400, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The Food Service fund had appropriations in excess of estimated resources plus available balances for the fiscal year ended June 30, 2005, in the amount of \$36,777.

5. BUDGETARY BASIS OF ACCOUNTING

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

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

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

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 (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$1,362,792
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	850,762
Accrued FY 2005, Not Yet Received in Cash	(1,463,588)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(2,238,190)
Accrued FY 2005, Not Yet Paid in Cash	2,203,236
Cash Adjustments:	
Unrecorded Activity FY 2005	(73,387)
Prepaid Items	(4,346)
Advances In	103,199
Advances Out	(103,750)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(81,559)
Budget Basis	\$555,169

6. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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 or deposit accounts, including passbook accounts.

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$5,170,602 of the School District's bank balance of \$5,529,528 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

B. Investments

As of June 30, 2005, the School District had the following investments.

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreements	\$2,040,402	June 1, 2034
Federal National Mortgage Association Notes	996,563	September 15, 2005
Federal National Mortgage Association Notes	998,125	October 15, 2005
Federal National Mortgage Association Notes	990,937	January 15, 2006
Federal National Mortgage Association Notes	987,188	May 15, 2006
Federal National Mortgage Association Notes	988,125	June 15, 2006
Federal Home Loan Mortgage Corporation Notes	997,500	August 15, 2005
Federal Home Loan Mortgage Corporation Notes	995,000	November 15, 2005
Federal Home Loan Mortgage Corporation Notes	988,437	February 15, 2006
Federal Home Loan Mortgage Corporation Notes	989,375	April 15, 2006
Federal Home Loan Mortgage Corporation Notes	1,680,875	August 15, 2006
Federal Home Loan Bank Bonds	991,563	March 15, 2006
U. S. Treasury Note	992,500	December 31, 2005
U. S. Treasury Note	990,625	May 31, 2006
Mutual Funds	238,839	12 days
STAR Ohio	1,147,464	30.4 Days

The School District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts the Treasurer from investing in anything other than those investments identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District. The market value of securities underlying repurchase agreements must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

The securities underlying the repurchase agreements (Federal National Mortgage Association Notes) carry a rating of AAA by Moody's. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Bonds, and STAR Ohio have a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and Federal Home Loan Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name.

The School District places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the School District's total portfolio.

	Fair Value	Percentage of Portfolio
Repurchase Agreements	\$2,040,402	11.99%
Federal National Mortgage Association Notes	4,960,938	29.16
Federal Home Loan Mortgage Corporation Notes	5,651,187	33.22
Federal Home Loan Bank Bonds	991,563	5.83

7. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, interfund, income taxes, and property taxes. 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. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
State of Ohio	\$ 16,095
Other Governmental Funds	
Public Preschool	11,954
Ohio Reads	1,036
Student Intervention	23,115
Title VI-B	102,214
Title I	55,234
Title V	436
Drug Free	2,326
Early Childhood Preschool	2,867
Title II-A	48,554
Title II-D	5,600
Total Other Governmental Funds	253,336
Total Intergovernmental Receivables	\$269,431

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. INCOME TAXES

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2004, and is for five 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

9. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received during calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received during calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received during calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received during calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Van Wert County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$583,395 in the General Fund, \$152,615 in the Bond Retirement debt service fund, and \$41,625 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$414,609 in the General Fund, \$112,650 in the Bond Retirement debt service fund, and \$29,914 in the Permanent Improvement capital projects fund.

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

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$139,514,810	62.25%	\$141,450,260	62.76%
Industrial/Commercial	39,866,470	17.79	40,260,290	17.86
Public Utility	7,530,770	3.36	8,093,480	3.59
Tangible Personal	37,203,164	16.60	35,573,861	15.79
Total Assessed Value	<u>\$224,115,214</u>	<u>100.00%</u>	<u>\$225,377,891</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$54.40		\$53.70	

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. CAPITAL ASSETS

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Non-depreciable Capital Assets				
Land	\$536,299	\$0	(\$4,464)	\$531,835
Construction in Progress	1,851,690	12,565,531	0	14,417,221
Total Non-depreciable Capital Assets	<u>2,387,989</u>	<u>12,565,531</u>	<u>(4,464)</u>	<u>14,949,056</u>
Depreciable Capital Assets				
Land Improvements	447,282	0	(10,674)	436,608
Buildings and Building Improvements	7,861,792	0	(132,485)	7,729,307
Furniture, Fixtures, and Equipment	1,798,964	64,924	(191,822)	1,672,066
Vehicles	911,535	23,270	(12,658)	922,147
Total Depreciable Capital Assets	<u>11,019,573</u>	<u>88,194</u>	<u>(347,639)</u>	<u>10,760,128</u>
Less Accumulated Depreciation				
Land Improvements	(271,295)	(11,314)	9,443	(273,166)
Buildings and Building Improvements	(4,876,602)	(151,074)	119,526	(4,908,150)
Furniture, Fixtures, and Equipment	(970,685)	(103,237)	186,851	(887,071)
Vehicles	(540,380)	(40,356)	5,907	(574,829)
Total Accumulated Depreciation	<u>(6,658,962)</u>	<u>(305,981)</u>	<u>321,727</u>	<u>(6,643,216)</u>
Depreciable Capital Assets, Net	<u>4,360,611</u>	<u>(217,787)</u>	<u>(25,912)</u>	<u>4,116,912</u>
Governmental Activities Capital Assets, Net	<u>\$6,748,600</u>	<u>\$12,347,744</u>	<u>(\$30,376)</u>	<u>\$19,065,968</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$148,331
Special	18,979
Vocational	3,057
Support Services:	
Pupils	190
Instructional Staff	5,982
Administration	16,711
Fiscal	452
Operation and Maintenance of Plant	28,873
Pupil Transportation	34,692
Central	22,119
Non-Instructional Services	15,755
Extracurricular Activities	10,840
Total Depreciation Expense	<u>\$305,981</u>

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. INTERFUND ASSETS/LIABILITIES

At June 30, 2005, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$103,750, resulting from the provision of cash flow resources until the receipt of grant monies by the other governmental funds. All amounts are expected to be repaid within one year.

12. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted for the following insurance coverage.

Coverage provided by Indiana Insurance Company is as follows:

General Liability	
Per Occurrence	\$1,000,000
Total per Year	2,000,000
Building and Contents	36,562,722
Vehicle Liability	1,000,000
Uninsured/Underinsured Motorists	1,000,000
Umbrella Liability	
Per Occurrence	3,000,000
Total per Year	3,000,000

Coverage provided by Midwestern Indemnity Company is as follows:

Builders' Risk	\$36,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

The School District participates in the Van Wert Area Schools Insurance Group (VWASIG). VWASIG is a public entity shared risk pool consisting of five members. The School District pays monthly premiums to VWASIG for employee medical, dental, and life insurance benefits. VWASIG is responsible for the management and operation of the program. Upon withdrawal from VWASIG, a member is responsible for the payment of all VWASIG liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. CONTRACTUAL COMMITMENTS

At June 30, 2005, the School District had the following contractual commitments:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid to Date</u>	<u>Remaining Balance</u>
Buehrer Group	New HS/MS Facility	\$1,713,000	\$1,309,216	\$403,784
Peck, Shaffer & Williams	New HS/MS Facility	35,000	25,428	9,572
Folding Equipment	New HS/MS Facility	352,040	0	352,040
Koester Electric	New HS/MS Facility	3,510,815	407,200	3,103,615
Materials Testing	New HS/MS Facility	5,000	0	5,000
Ohio Plumbing	New HS/MS Facility	1,376,669	359,240	1,017,429
Peterson Construction	New HS/MS Facility	25,595,941	8,491,668	17,104,273
S. S. Kemp	New HS/MS Facility	414,073	0	414,073
Tiffin Scenic Studio	New HS/MS Facility	327,297	0	327,297
Vaughn Industries	New HS/MS Facility	2,656,337	202,110	2,454,227
Vulcan	New HS/MS Facility	504,966	6,227	498,739
Wadsworth	New HS/MS Facility	339,505	25,073	314,432
Trucco Construction	New HS/MS Facility	1,027,550	975,233	52,317

14. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$1,124,510, \$1,089,641, and \$1,084,035, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$3,656 made by the School District and \$8,485 made by plan members.

B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent 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 School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$198,090, \$161,202, and \$141,939, respectively; 46 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$86,782.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$92,787 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

16. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Up to five days of unused vacation may be carried forward to the succeeding fiscal year for classified employees. The superintendent, treasurer, and high school principal earn twenty days of vacation per fiscal year, and may accumulate up to sixty days. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred ninety-five days for all employees. Upon retirement, payment is made for 25.7 percent of accrued but unused sick leave credit up to a maximum of 50.12 days. Employees who have accumulated one hundred ninety-five days of sick leave may accumulate an additional twenty-five days to be paid upon retirement. This will result in an overall maximum payment of 75.12 days.

B. Health Care Benefits

The School District provides medical, dental, and life insurance to most employees through the Van Wert Area Schools Insurance Group.

17. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligation Bonds					
FY03 School Improvement					
Bonds					
Serial Bonds 2.0-5.0%	\$11,975,000	\$0	\$485,000	\$11,490,000	\$0
Term Bonds 5.0%	11,465,000	0	0	11,465,000	0
Capital Appreciation Bonds 2-					
5%	1,219,960	0	0	1,219,960	310,443
Accretion of Capital					
Appreciation Bonds	469,322	308,743	0	778,065	0
Premium	1,003,510	0	12,886	990,624	0
Total General Obligation Bonds	<u>26,132,792</u>	<u>308,743</u>	<u>497,886</u>	<u>25,943,649</u>	<u>310,443</u>
Compensated Absences					
Payable	<u>1,916,753</u>	<u>140,962</u>	<u>62,444</u>	<u>1,995,271</u>	<u>48,700</u>
Total Governmental Activities					
Long -Term Obligations	<u>\$28,049,545</u>	<u>\$449,705</u>	<u>\$560,330</u>	<u>\$27,938,920</u>	<u>\$359,143</u>

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

General Obligation School Improvement Bonds - On July 24, 2002, the School District issued voted general obligation bonds, in the amount of \$24,999,960, for the construction of a new high school. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$12,315,000, \$11,465,000, and \$1,219,960, respectively. The bonds were issued for a twenty-eight year period, with final maturity during fiscal year 2031. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2027, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, on December 1 in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2023	\$1,200,000
2024	1,260,000
2025	1,325,000
2026	1,390,000

Unless previously redeemed, the remaining principal, in the amount of \$1,460,000, will mature at stated maturity on December 1, 2027.

The term bonds maturing on December 1, 2030, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, on December 1 in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2028	\$1,530,000
2029	1,610,000

Unless previously redeemed, the remaining principal, in the amount of \$1,690,000, will mature at stated maturity on December 1, 2030.

The serial bonds maturing after December 1, 2012, are subject to optional redemption, in whole or in part on any interest payment date, in integral multiples of \$5,000, at the option of the School District on or after December 1, 2012, at a redemption price of 100 percent of the principal amount plus accrued interest to the redemption date.

The capital appreciation bonds will mature during fiscal year 2010 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$2,975,000. For fiscal year 2005, \$308,743 was accreted for a total outstanding balance at June 30, 2005, of \$1,998,025.

As of June 30, 2005, \$14,417,221 of the School Improvement Bonds had been applied towards construction and is reflected as construction in progress at fiscal year end.

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was (\$3,430,565) with an unvoted debt margin of \$225,378 at June 30, 2005. The School District has been authorized by the Ohio Superintendent of Public Instruction to exceed its overall limitation because it has been designated as a "special needs" school district.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

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

Fiscal Year Ending June 30,	General Obligation Bonds				
	Serial	Term	Capital Appreciation	Interest	Total
2006	\$0	\$0	\$310,443	\$1,400,076	\$1,710,519
2007	0	0	262,472	1,356,909	1,619,381
2008	0	0	221,913	1,305,850	1,527,763
2009	0	0	227,211	1,233,569	1,460,780
2010	0	0	197,921	1,136,884	1,334,805
2011-2015	3,685,000	0	0	5,107,875	8,792,875
2016-2020	4,535,000	0	0	4,227,896	8,762,896
2021-2025	3,270,000	0	0	2,995,500	6,265,500
2026-2030	0	6,635,000	0	1,372,375	8,007,375
2031	0	4,830,000	0	42,250	4,872,250
Total	<u>\$11,490,000</u>	<u>\$11,465,000</u>	<u>\$1,219,960</u>	<u>\$20,179,184</u>	<u>\$44,354,144</u>

18. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2005.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2004	(\$259,221)	(\$24,861,671)	\$52,993
Current Year Set Aside Requirement	309,324	309,324	0
Qualifying Expenditures	(313,939)		0
Current Year Offsets	0	(309,324)	0
Balance Carried Forward to Fiscal Year 2005	<u>(\$263,836)</u>	<u>(\$24,861,671)</u>	<u>\$52,993</u>
Set Aside Reserve Balance June 30, 2005	<u>\$0</u>	<u>\$0</u>	<u>\$52,993</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. The School District had qualifying bond proceeds from fiscal year 2002 that reduced the capital improvements set aside amount below zero. These amounts may be used to reduce the set aside requirement in future fiscal years.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

19. ENDOWMENTS

The School District's private purpose trust funds include donor restricted endowments. Endowments, in the amount of \$14,535, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$36,623 and is included as held in trust for students. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowments indicate that the interest should be used to provide scholarships each year and to aid needy children.

20. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2005, the School District paid \$15,737 to NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

B. Vantage Joint Vocational School

The Vantage Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Vantage Joint Vocational School, 818 North Franklin Street, Van Wert, Ohio 45891.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

20. Jointly Governed Organizations (Continued)

D. Northwest Ohio Special Education Regional Resource Center

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Dave Michel, Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

21. INSURANCE POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

21. INSURANCE POOLS (Continued)

B. Van Wert Area Schools Insurance Group

The Van Wert Area Schools Insurance Group (VWASIG) is a public entity shared risk pool consisting of five members. VWASIG is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to the employees of the participants. Each member appoints a representative to the Board of Trustees. The Board of Trustees is the legislative and managerial body of VWASIG. Financial information can be obtained from the Van Wert City School District, who serves as fiscal agent, 205 West Crawford Street, Van Wert, Ohio 45891.

22. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

The School District is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District Board of Education is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through Ohio Department of Education)						
Nutrition Cluster:						
School Breakfast Program	044966 04 & 05-PU	10.553	\$20,404		\$20,404	
National School Lunch Program	044966 04 & 05 -PU	10.555	205,120		205,120	
Food Distribution	N/A	10.550		80,259		80,259
Total U.S. Department of Agriculture - Nutrition Cluster			225,524	80,259	225,524	80,259
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program/SCHIP	8100156	93.767	3,021		3,021	
Medical Assistance Program/CAFS	8100156	93.778	68,017		68,017	
Total U.S. Department of Health and Human Services			71,038		71,038	
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Special Education Cluster:						
Special Education_Grants to States	044966-6B-SF2004	84.027	76,394		16,691	
Special Education_Grants to States	044966-6B-SF2005	84.027	375,437		391,941	
Total			451,831		408,632	
Child Progress Grant	004966PG-D7-2004P	84.173A	5,320			
Special Education_Preschool Grants	044966PG-S1 2004	84.173	1,384			
Special Education_Preschool Grants	044966PG-S1 2004	84.173	17,130		17,130	
Total			23,834		17,130	
Total Special Education Cluster			475,665		425,762	
Title I Grants to Local Educational Agencies	044966 C1-S1 04	84.010	35,198		38,194	
Title I Grants to Local Educational Agencies	044966 C1-S1 05	84.010	192,807		199,269	
Total			228,005		237,463	
Title II Part A	044966-TRS1-2004	84.367	23,251		10,764	
Title II Part A	044966-TRS1-2005	84.367	50,521		77,991	
Total			73,772		88,755	
Technology Literacy Challenge Fund Grant	044966-TJS1-2004	84.318	615		1,319	
Technology Literacy Challenge Fund Grant	044966TJS1-2005	84.318	672		6,072	
Total			1,287		7,391	
Drug Free Schools	044966-DR-S1-2004	84.186	4,243			
Drug Free Schools	044966-DR-S1-2005	84.186	7,343		7,843	
Total			11,586		7,843	
Innovative Education Program Strategies	044966 C2-S1 2004	84.298	(120)			
Innovative Education Program Strategies	044966 C2-S1 2005	84.298	9,219		9,219	
Total			9,099		9,219	
Total U.S. Department of Education			799,414		776,433	
Total Federal Assistance			\$1,095,976	\$80,259	\$1,072,995	\$80,259

See accompanying notes to the schedule of federal awards expenditures.

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2005**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- CHILD NUTRITION CLUSTER

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

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

NOTE C -- PROGRAM YEAR TRANSFERS

The negative receipt recorded on the schedule for CFDA #84.298 represents a transfer between the 2004 and 2005 program years within the same CFDA number. These transfers are recorded as a negative receipt in the transferring fund/special cost center and a positive receipt in the receiving fund/special cost center.

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**Auditor of State
Betty Montgomery**

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

Van Wert City School District
Van Wert County
205 W. Crawford Street
Van Wert, Ohio 45891

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Van Wert City School District (the School District) as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated February 28, 2006, 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 School 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 School District's management dated February 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

Van Wert City School District
Van Wert County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 28, 2006



Auditor of State Betty Montgomery

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

Van Wert City School District
Van Wert County
205 W. Crawford Street
Van Wert, Ohio 45891

Compliance

We have audited the compliance of Van Wert City School District (the School District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control over Compliance

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

**Internal Control Over Compliance
(Continued)**

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

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



Betty Montgomery
Auditor of State

February 28, 2006

**VAN WERT CITY SCHOOL DISTRICT
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #'s 10.550 & 10.555: Nutrition Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

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VAN WERT CITY SCHOOL DISTRICT

WAN WERT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2006**