



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

February 21, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**Joseph Badger Local School District**

*Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

*Table of Contents*

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	<u>Page</u>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	13
Statement of Activities.....	14
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	17
Statement of Revenues, Expenditures and Changes In Fund Balances – Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	19
Statement of Revenues, Expenditures and Changes In Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund .....	20
Statement of Fund Net Assets-Proprietary Funds.....	22
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	23
Statement of Cash Flows – Proprietary Funds.....	24
Statement of Fiduciary Net Assets-Fiduciary Funds .....	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund .....	27
Notes to the Basic Financial Statements .....	29
Independent Accountant' Report on Internal Controls over Financial Reporting and on Compliance and Other Matters required by Government Auditing Standards .....	55

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Joseph Badger Local School District  
Trumbull County  
7119 State Route 7  
Kinsman, Ohio 44428

To The Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

December 27, 2006



**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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Taking stock of last year is an important step to understanding the future. This School District has felt strongly that producing this report is worthwhile despite the cost in time and money. The transparency and trust built from publishing this document provides immeasurable returns. The collection of paragraphs, tables, and graphics depicts our School District's performance over the previous fiscal year. Clearly, there is a major change taking place as we transition to our new K-12 facility and simultaneously face our State's relentless tightening of money supply. Included here is management's view of what transpired in fiscal 2006 and how facts could change our future financial condition. You are welcome to review and comment on the information you will find within.

### **FINANCIAL HIGHLIGHTS**

- ✧ The School District's total governmental net assets increased to \$25,061,777 from \$24,615,633 an increase of \$446,144 during this year's operations. This increase in net assets indicates improving financial health although the improvement is attributable to construction in progress. Business-type activity again showed a decrease in net assets from (\$18,430) to (\$21,131) for a loss of (\$2,701) or (14.66) percent.
- ✧ Total governmental activities revenues of \$9,243,740 were comprised of General revenues in the amount of \$8,678,403 and program revenues totaling \$565,337. Program revenues are grants, fees and donations; general (non-program) revenue is Foundation from the State of Ohio and Local Taxes charged to residents of the School District. In table 2 below, you will find the detailed cost of each program to our School District.
- ✧ The School District's business-type activity showed program revenue of \$320,104 compared to \$351,882 last fiscal year. Business type expenses were \$396,963 in comparison to last year's \$441,914. The small decrease in expenses in the business-type activity is directly related to the layoff of personnel.
- ✧ The School District has reviewed all of its funds and has concluded that the general, bond retirement, locally funded initiative and school facilities commission funds should be the only funds depicted as major funds.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 and 12-13) provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the School District's operations in more detail than the government-wide statements by providing information about the School District's most significant funds. The remaining statements provide financial information about activities for which the School District acts solely as a trustee or agent for the benefit of those outside the government.

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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**Reporting the School District as a Whole (district-wide)**

The only two reports that display district-wide finances are the Statement of Net Assets and the Statement of Activities. Within these statements, we show the School District divided into two kinds of activities:

- ✧ Governmental Activities – All of the School District's instructional activities are reported here. Property Taxes, State and Federal Grants and fees finance the majority of activity in this group.
- ✧ Business-Type Activities – If the Board of Education sets a fee designed to offset the cost of operating a program, then this defines a business-type activity. The School District's school lunch program is reported here.

Analysis of the School District as a whole begins on page 4. These two reports help clarify one of the most important issues when analyzing a business entity. "Are you better off today than you were one year ago?" Taken with other information provided, the district-wide reports will provide an answer to this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The most important aspect of accrual accounting is that all of the year's revenues and expenses are reported regardless of when cash is received or paid out.

These statements also display the net assets of the School District and note any changes that occurred during the year. Net assets are the difference between assets and liabilities and they tend to be the lead indicator of financial health. Please investigate other factors such as changes in property tax values, tax levies and renewals or state funding issues before reaching a final conclusion about our School District's financial status. Please also look at the individual fund conditions to show the composition of the changes.

**Reporting the School District's Most Significant Funds (fund financials)**

Analysis of the School District's major funds begins on page 8. The fund financial statements begin on page 14 and provide detailed information about each significant fund in contrast to the previously described district-wide reporting. Most of the funds are required to be established by State law.

After applying the rules for GASB major funds, it was apparent that the general, bond retirement, locally funded initiative and school facilities commission funds were the major funds this year.

Governmental funds – Most of the School District's funds are reported as governmental funds. These reports focus on how resources flow into and out of these funds and the balances left at year-end that are available for spending. These reports are done on a modified accrual basis, which measures cash and all other financial assets that can be readily converted into 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. There are differences between governmental funds (as reported in this section) and Governmental Activities as reported in the Statement of Net Assets and the Statement of Activities. These differences are reconciled in the financial statements.

Proprietary funds – The Board of Education charges students a fee for school lunch. The money collected locally combined with State and Federal reimbursements, is intended to defray all expenses necessary to operate the food service program. Each month the Board reviews food service fund projections to judge how much negative impact will be placed on the general fund. Additionally, this year, the School District decided to create a dental fund whose purpose was to self insure dental expenses. It is the School District's belief that this could save money and provide flexibility of benefit levels. Proprietary funds utilize the same

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

form of accounting as business-type activities; therefore these statements match those found in the district-wide statements.

**The School District as a Trustee**

The School District is a trustee or fiduciary for a single fund. This fund holds and invests the principal amount and provides the earnings in the form of a scholarship for a graduating senior. There is no School District related activity occurring within this fund.

**THE SCHOOL DISTRICT AS A WHOLE**

The Statement of Net Assets looks at the District as a whole. The School District's total net assets were up from a year ago. Table 1 shows an increase from \$24,617,517 to \$25,040,646. The increase in Net Assets indicates that the School District has gained some financial health as a result of the construction of the new K-12 facility.

**(Table 1)**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2005	2004
<b>Assets</b>						
Current and Other Assets	\$13,471,800	\$34,769,173	\$0	\$2,725	\$13,471,800	\$34,771,898
Capital Assets	26,642,775	5,241,418	26,227	28,918	26,669,002	5,270,336
<b>Total Assets</b>	<b>40,114,575</b>	<b>40,010,591</b>	<b>26,227</b>	<b>31,643</b>	<b>40,140,802</b>	<b>40,042,234</b>
<b>Liabilities</b>						
Long-Term Liabilities	(10,363,688)	(10,708,390)	(9,123)	(8,848)	(10,372,811)	(10,717,238)
Other Liabilities	(4,689,110)	(4,666,254)	(38,235)	(41,225)	(4,727,345)	(4,707,479)
<b>Total Liabilities</b>	<b>(15,052,798)</b>	<b>(15,374,644)</b>	<b>(47,358)</b>	<b>(50,073)</b>	<b>(15,100,156)</b>	<b>(15,424,717)</b>
<b>Net Assets</b>						
Invested In Capital						
Assets, net	23,192,253	5,241,418	26,227	28,918	23,218,480	5,270,336
Restricted	1,376,553	19,110,569	0	0	1,376,553	19,110,569
Unrestricted (Deficit)	492,971	283,960	(47,358)	(47,348)	445,613	236,612
<b>Total Net Assets</b>	<b>\$25,061,777</b>	<b>\$24,635,947</b>	<b>(\$21,131)</b>	<b>(\$18,430)</b>	<b>\$25,040,646</b>	<b>\$24,617,517</b>

All categories of Capital Assets decreased with the exception of Construction in Progress. Overall Capital Assets increased due to this rapid escalation in construction value. The addition of \$21,582,550 to Construction in Progress overshadows the declines in all other categories of depreciable capital assets. Due to lack of funding for school bus replacement, and textbooks, the School District also saw these net assets decrease causing future problems for the State and School District partnership.

Governmental Capital Assets increased in the gross amount of \$21,628,084. To arrive at the net increase in Capital Assets, you must combine this year's depreciation expense of (\$226,727) for a total increase of \$21,401,357. In the accompanying notes you will find the detail on how depreciation was distributed. The

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

net assets of our business-type activity or school lunch program decreased from (\$18,430) to (\$21,131). This (\$2,701) loss in Net Assets shows that management was able to slow the loss from the previous year which totaled (\$15,551). Expanding the breakfast program brought more revenue and government subsidies. The duplicative cost of operating four cafeterias remains the major problem. The new K-12 building will contain only one cafeteria. This will mean a future savings to the general fund which currently is forced to transfer funds to the food service fund every year to avoid a negative balance.

This is the seventh year the School District has prepared financial statements following GASB Statement 34, so revenue and expense comparisons to the previous fiscal year are presented.

**(Chart 1)**  
**Governmental Activities Revenue and Program Expenses**  
**Fiscal 2006 and Fiscal 2005**

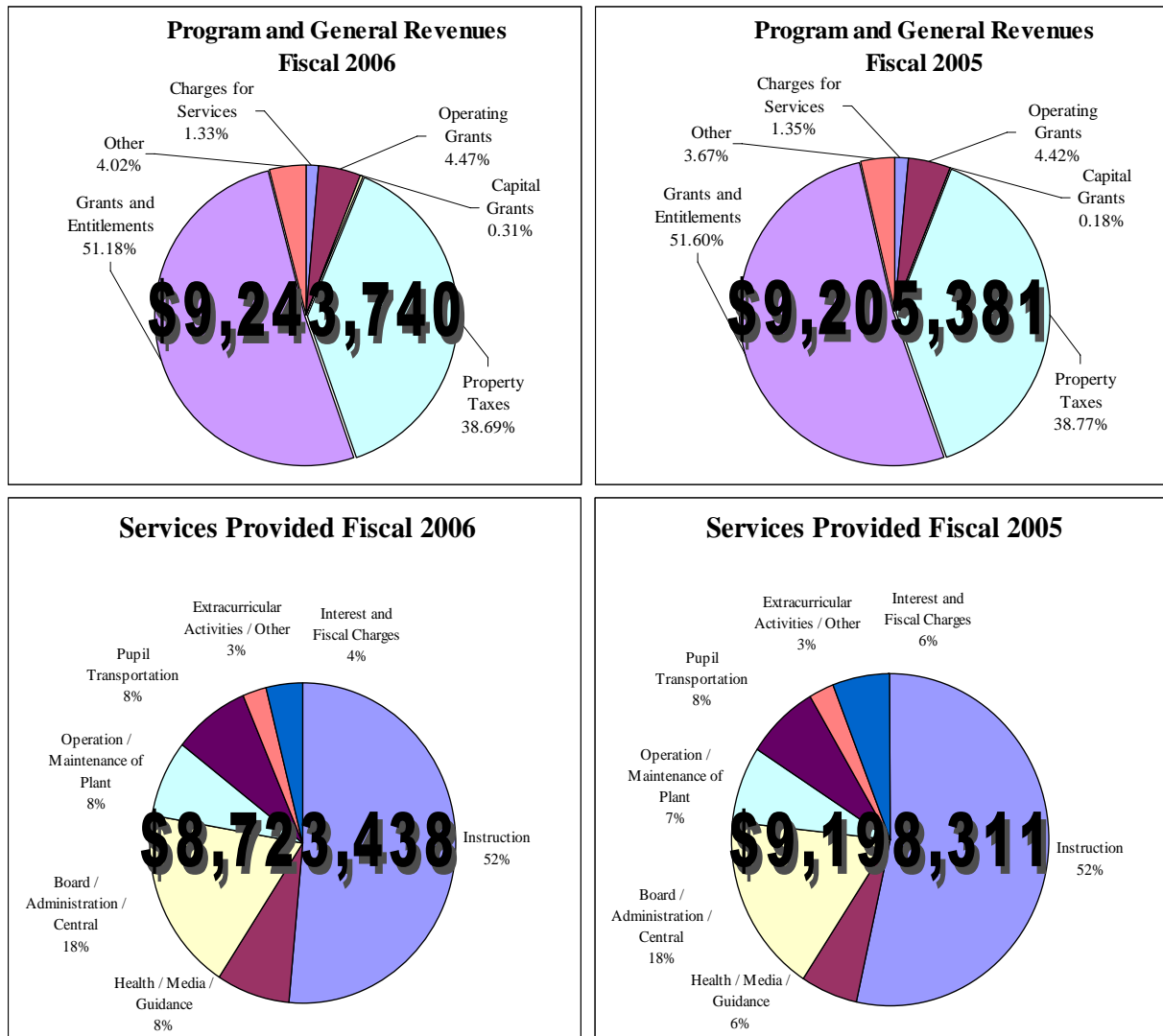


Table 2 highlights the School District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table show how this year compares to last by utilizing the full accrual method of accounting.

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2006  
Unaudited

**(Table 2)**  
**Program Revenues and Expenses**

	Governmental Activities 2006	Governmental Activities 2005	Business- Type Activity 2006	Business- Type Activity 2005	Total 2006	Total 2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$123,033	\$124,090	\$189,192	\$183,155	\$312,225	\$307,245
Operating Grants and Contributions	413,400	407,251	130,912	168,727	544,312	575,978
Capital Grants and Contributions	28,904	17,000	0	0	28,904	17,000
Subtotal	<u>\$565,337</u>	<u>\$548,341</u>	<u>\$320,104</u>	<u>\$351,882</u>	<u>\$885,441</u>	<u>\$900,223</u>
General Revenue:						
Property Taxes	3,576,326	3,569,290	0	0	3,576,326	3,569,290
Grants and Entitlements	4,730,890	4,750,313	0	0	4,730,890	4,750,313
Investment Earnings	367,615	334,034	0	0	367,615	334,034
Other	3,572	3,403	0	0	3,572	3,403
Total General Revenue	<u>\$8,678,403</u>	<u>\$8,657,040</u>	<u>\$</u>	<u>\$</u>	<u>\$8,678,403</u>	<u>\$8,657,040</u>
Total Revenues	<u>\$9,243,740</u>	<u>\$9,205,381</u>	<u>\$320,104</u>	<u>\$351,882</u>	<u>\$9,563,844</u>	<u>\$9,557,263</u>
<b>Program Expenses and Transfers Out</b>						
Instruction:						
Regular	\$3,854,814	\$4,162,869	\$0	\$0	\$3,854,814	\$4,162,869
Special	559,156	846,160	0	0	559,156	846,160
Vocational	78,825	72,687	0	0	78,825	72,687
Support Services:						
Pupils	347,421	240,415	0	0	347,421	240,415
Instructional Staff	323,453	277,131	0	0	323,453	277,131
Board of Education	444,049	436,901	0	0	444,049	436,901
Administration	761,386	742,762	0	0	761,386	742,762
Fiscal	315,058	345,932	0	0	315,058	345,932
Operation and Maintenance of Plant	685,163	687,718	0	0	685,163	687,718
Pupil Transportation	697,931	705,038	0	0	697,931	705,038
Central	92,019	92,325	0	0	92,019	92,325
Extracurricular Activities	215,596	231,097	0	0	215,596	231,097
Debt Service:						
Interest and Fiscal Charges	348,567	357,276	0	0	348,567	357,276
Food Service	0	0	396,963	441,914	396,963	441,914
Total Program Expenses	<u>\$8,723,438</u>	<u>\$9,198,311</u>	<u>\$396,963</u>	<u>\$441,914</u>	<u>\$9,120,401</u>	<u>\$9,640,225</u>
Changes in Net Assets Before Transfers	\$520,302	\$7,070	(\$76,859)	(\$90,032)	\$443,443	(\$82,962)
Transfers	<u>(74,158)</u>	<u>(74,481)</u>	<u>74,158</u>	<u>74,481</u>	<u>0</u>	<u>0</u>
Changes in Net Assets	<u>\$446,144</u>	<u>(\$67,411)</u>	<u>(\$2,701)</u>	<u>(\$15,551)</u>	<u>\$443,443</u>	<u>(\$82,962)</u>

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**Analysis of overall financial position and results of operations**

The financial position of the Joseph Badger Local School District finally buckled under the intense pressure supplied by the State. With State support flat in the past four fiscal years, and having already made numerous cuts to staffing, the School District was want for ways to decrease expenses. The combination of lack of support from the State and lack of ways to make staffing cuts and increasing costs for bus fuel, natural gas and supplies, the School District was unable to stave off and must report declining fiscal health. Next school year will be much better as we migrate to our new building which will dictate extreme staffing reductions in all areas of cost.

Revenue composition was changed by a large increase in property taxes related to servicing debt. State Foundation Grant to operate schools was down slightly as the State failed to provide adequate resources for the forth consecutive year. Despite a purported increase to per pupil funding, the School District received a decrease in Foundation.

A quick look at total expenses shows that management was unable to trim costs and additionally had sizable increases in several categories. The increase in the special education category was caused by an increase in IDEA-B funding matched by an increase in the demand for more services and an increase in population served. Also, the State has segregated special education revenue and is demanding that each district spend all of the segregated revenue at the same time it is cutting revenue to regular education. Many of the School District cuts were made without direct impact to curriculum as retiring teachers were not replaced unless absolutely necessary.

In table 3 below the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. The net costs are program costs that must be covered by unrestricted state aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations.

**(Table 3)**  
**Governmental Activities**

<u>Programs</u>	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Instruction	\$4,492,795	\$5,081,716	\$4,043,695	\$4,636,943
Support Services:				
Pupils and Instructional Staff	670,874	517,546	661,397	508,607
Board of Education, Administration, Fiscal and Business Services	1,520,493	1,525,595	1,501,226	1,506,154
Operation and Maintenance of Plant	685,163	687,718	678,917	681,373
Pupil Transportation	697,931	705,038	691,978	698,936
Central	92,019	92,325	67,247	79,760
Extracurricular Activities	215,596	231,097	165,074	180,921
Interest and Fiscal Charges	348,567	357,276	348,567	357,276
<b>Total Expenses</b>	<b>\$8,723,438</b>	<b>\$9,198,311</b>	<b>\$8,158,101</b>	<b>\$8,649,970</b>

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**THE DISTRICT'S FUNDS**

As previously stated, these funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of \$20,975,430 and expenditures of \$30,575,644.

***General Fund Financial Activity***

One of the most significant Governmental Fund is the General Fund. The fund balance of the General Fund decreased for the third consecutive year by (\$303,200). The increase program expenditures accounted for this loss. Interest revenue naturally increased due to the Federal Reserves current policy of moving interest rates up. This overall slight gain in revenue was not enough to offset the increase in expenditures.

***General Fund Budgetary Highlights***

In this fund, the forecasted expenditures presented to the Joseph Badger Board of Education in September finished on the high side. The lack of significant increases in State revenue and tax revenue was accurately projected. The general fund receipts were missed by \$202,578 or 2.7 percent and actual expenditures were higher than the original estimate by only \$58,816 out of \$7.869 million or .75 percent. This School District's year-end policy is to request an amended certificate of estimated resources that equals actual revenues and to pass an appropriation resolution whose amounts equal actual expenditures and encumbrances in the majority of accounts at year-end. Another major fund is the school facilities commission fund where intergovernmental revenue was higher than anticipated and actual expenditures were also higher than expected.

**CAPITAL ASSETS**

The following table shows ending balances of capital assets invested in various categories. Table 4 reflects a total increase of \$21,398,666. The School District's capital assets acquisitions revolved almost exclusively around Construction in Progress because the construction and furnishing of a new school is just one school year away.

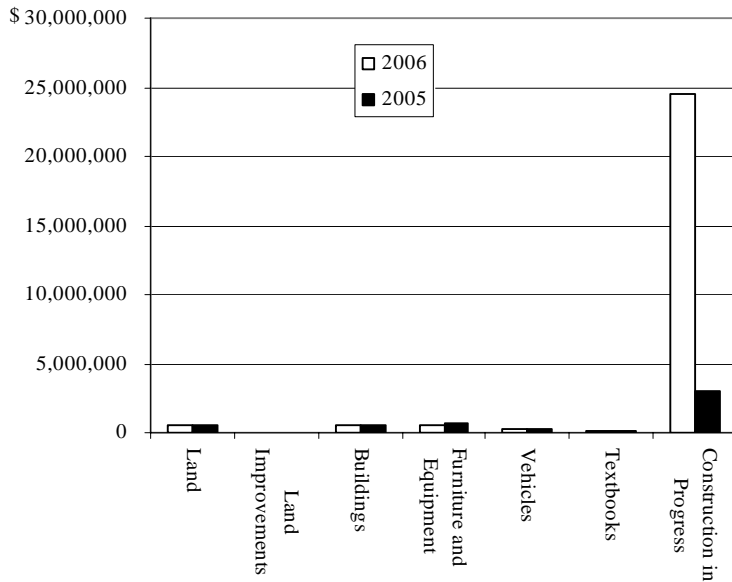
**Capital Assets**  
**(Table 4)**  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$528,682	\$528,682	\$0	\$0	\$528,682	\$528,682
Land Improvements	40,455	44,328	0	0	40,455	44,328
Buildings and Improvements	589,560	610,265	0	0	589,560	610,265
Furniture and Equipment	544,768	625,631	26,227	28,918	570,995	654,549
Vehicles	269,028	339,555	0	0	269,028	339,555
Textbooks	118,954	124,179	0	0	118,954	124,179
Construction in Progress	24,551,328	2,968,778	0	0	24,551,328	2,968,778
<b>Totals</b>	<b>\$26,642,775</b>	<b>\$5,241,418</b>	<b>\$26,227</b>	<b>\$28,918</b>	<b>\$26,669,002</b>	<b>\$5,270,336</b>

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

The School District could not purchase a new bus as the State has cut into transportation safety by cutting funding for new busses and now only provides one-third the needed revenue for bus replacement. The School District will maintain safe vehicles by increased spending on vehicle maintenance

(Chart 2)  
Change in Net Assets



The graph at the left shows the category and net worth of our School District's capital assets. Management has been reluctant due to poor State funding to increase textbook or vehicles assets. Management has chosen to allow land improvements, buildings and furniture and equipment categories to decline in value.

This year, you will notice another steep increase in Construction in Progress reflecting that the School District is nearing completion of its new facility. It looks solidly like the School District will be able to occupy the new K-12 building in August of 2006. Construction in Progress will increase as buildings, land improvement, and furniture and equipment decrease until the new building is completed and furnished at which time construction

assets will be properly valued and categorized.

School District vehicles depreciated \$70,527 and no vehicles were purchased this year. In discussions with the director of transportation, the fleet is in desperate need of better vehicles; however, as stated, the State cut new bus funding, the School District met State cuts with cuts to transportation capital but now it is necessary to purchase busses each year for the next several years. Management has decided to alternate purchases between the permanent improvement fund and the general fund until the fleet is back in good condition. School District records indicate that Joseph Badger has been required to spend over \$200,000 educational dollars over the State's bus purchase allowance. Transportation spending reduces the amount of dollars spent in classroom education and places disproportional burden on districts with substantial transportation challenges. See Note 9 for additional capital asset information.

**DEBT**

There were no significant events related to debt this year as the ordinary bond fund repayment schedule has been reached. The note repaid last year has not been a major issue as tax collections in the bond fund were bolstered by a large increase in property value. This increase was the result of revaluation of the district's properties as dictated by the State and County governments. Construction costs are still under budget and this could result in a windfall for the bond fund. If the windfall is realized, the tax rate set for the bond fund will decrease temporarily until the fund achieves an acceptable balance.



**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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The School District's outstanding long term debt was reduced to \$9,345,000 from \$9,625,000 a difference of \$280,000 in principal retirement. See Note 14 for additional debt information.

**About the Future**

The State of Ohio continues to place pressure on the resources of local districts through funding cuts. Moving to a single new building this coming year will result in operational efficiencies that offset future budget cuts from the State. Since at this writing, early results are known, management is optimistic about the future finances of this School District.

The most recently filed five-year forecast now shows that this School District should not require new local dollars for some time. The School District is determined to do all it can to remain solvent and to avoid passing a new levy that would defy Supreme Court orders to reduce dependency on property tax. The School District currently has two Emergency levies. This levy position is precarious because these levies require voter approval at the end of their five year life and also because the dollar amount is fixed and does not compensate for inflation. The Board has discussed several alternative tax strategies. Management may attempt to replace emergency millage with income tax or other more permanent solutions.

We are dependent on outside factors for our future success. The Ohio School Funding Formula provides most of the revenue for Joseph Badger Local Schools. The legislators in Ohio have retooled committees to work diligently on the State funding formula to provide equitable and adequate education for children throughout our State. Strapped for cash, the legislators continued to cut funding this fiscal year and this trend is projected to continue. While a substantial increase in the State's financial efforts would be justified and welcome, our forecasts do not take this possibility into account.

Insurance premiums for property and fleet decreased somewhat and health care insurance continues to be a source of concern. The health care insurance consortium to which Joseph Badger belongs has a reasonable cash balance and has decided to hold premiums steady. Health care cost containment has become a large issue for the future. Management negotiated a contract that will require new teaching employees to switch to managed care and away from traditional programs.

Joseph Badger Local has thirteen teachers approaching retirement. Often if a senior teacher retires, they are replaced at a much lower cost. This could have a positive affect on School District finances.

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

These financial reports and discussions are designed to provide our students, citizens, taxpayers, investors and creditors with a complete disclosure of the School District's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have questions about this report or need additional financial information, please write William A. Johnson, Treasurer at Joseph Badger Local School District, 7119 St. Rt. 7, Kinsman, Ohio 44428 or call (330) 876-2812 or E-mail [William.Johnson@Neomin.Org](mailto:William.Johnson@Neomin.Org).

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**Joseph Badger Local School District**

*Statement of Net Assets*

*June 30, 2006*

	<u>Governmental Activities</u>	<u>Business Type Activity</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$8,927,573	\$0	\$8,927,573
Accrued Interest Receivable	31,934	0	31,934
Accounts Receivable	5	0	5
Intergovernmental Receivable	488,361	0	488,361
Taxes Receivable	3,894,101	0	3,894,101
Deferred Charges	129,826	0	129,826
Non-depreciable Capital Assets	25,080,010	0	25,080,010
Depreciable Capital Assets, Net of Depreciation	<u>1,562,765</u>	<u>26,227</u>	<u>1,588,992</u>
Total Assets	<u>40,114,575</u>	<u>26,227</u>	<u>40,140,802</u>
Liabilities:			
Accrued Wages	659,021	23,435	682,456
Intergovernmental Payable	141,688	14,800	156,488
Deferred Revenue	3,681,780	0	3,681,780
Accrued Interest Payable	199,990	0	199,990
Claims Payable	6,631	0	6,631
Long Term Liabilities:			
Due Within One Year	321,586	2,397	323,983
Due In More Than One Year	<u>10,042,102</u>	<u>6,726</u>	<u>10,048,828</u>
Total Liabilities	<u>15,052,798</u>	<u>47,358</u>	<u>15,100,156</u>
Net Assets:			
Investment in Capital Assets	23,192,253	26,227	23,218,480
Restricted:			
Set Asides	33,356	0	33,356
Capital Projects	1,279,475	0	1,279,475
Debt Service	63,722	0	63,722
Unrestricted (Deficit)	<u>492,971</u>	<u>(47,358)</u>	<u>445,613</u>
Total Net Assets (Deficit)	<u>\$25,061,777</u>	<u>(\$21,131)</u>	<u>\$25,040,646</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
Instruction:				
Regular	\$3,854,814	\$35,805	\$68,815	\$0
Special	559,156	2,357	341,385	0
Vocational	78,825	738	0	0
Support Services:				
Pupils	347,421	3,288	0	0
Instructional Staff	323,453	2,989	3,200	0
Board of Education	444,049	4,198	0	0
Administration	761,386	7,165	0	0
Fiscal	315,058	2,904	0	5,000
Operation and Maintenance of Plant	685,163	6,246	0	0
Pupil Transportation	697,931	5,953	0	0
Central	92,019	868	0	23,904
Extracurricular Activities	215,596	50,522	0	0
Interest and Fiscal Charges	348,567	0	0	0
<b>Total Governmental Activities</b>	<b>8,723,438</b>	<b>123,033</b>	<b>413,400</b>	<b>28,904</b>
<b>Business-Type Activity</b>				
Food Service	396,963	189,192	130,912	0
<b>Totals</b>	<b>\$9,120,401</b>	<b>\$312,225</b>	<b>\$544,312</b>	<b>\$28,904</b>

**General Revenues**

Property Taxes Levied for:

  General Purposes

  Debt Service

  Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

Changes in Net Assets

*Net Assets (Deficit) Beginning of Year*

*Net Assets (Deficit) End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business Type Activity	Total
(\$3,750,194)	\$0	(\$3,750,194)
(215,414)	0	(215,414)
(78,087)	0	(78,087)
(344,133)	0	(344,133)
(317,264)	0	(317,264)
(439,851)	0	(439,851)
(754,221)	0	(754,221)
(307,154)	0	(307,154)
(678,917)	0	(678,917)
(691,978)	0	(691,978)
(67,247)	0	(67,247)
(165,074)	0	(165,074)
(348,567)	0	(348,567)
(8,158,101)	0	(8,158,101)
0	(76,859)	(76,859)
(8,158,101)	(76,859)	(8,234,960)
2,892,102	0	2,892,102
587,643	0	587,643
96,581	0	96,581
4,730,890	0	4,730,890
367,615	0	367,615
3,572	0	3,572
8,678,403	0	8,678,403
(74,158)	74,158	0
8,604,245	74,158	8,678,403
446,144	(2,701)	443,443
24,615,633	(18,430)	24,597,203
\$25,061,777	(\$21,131)	\$25,040,646

**Joseph Badger Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

	<u>General</u>	<u>Bond Retirement</u>	<u>Locally Funded Initiative</u>	<u>School Facilities Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$1,181,826	\$60,437	\$2,395,225	\$4,792,046	\$344,269	\$8,773,803
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	33,356	0	0	0	0	33,356
Taxes Receivable	3,152,572	640,249	0	0	101,280	3,894,101
Accounts Receivable	5	0	0	0	0	5
Accrued Interest Receivable	31,934	0	0	0	0	31,934
Intergovernmental Receivable	16,834	0	0	471,527	0	488,361
<i>Total Assets</i>	<u>\$4,416,527</u>	<u>\$700,686</u>	<u>\$2,395,225</u>	<u>\$5,263,573</u>	<u>\$445,549</u>	<u>\$13,221,560</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accrued Wages	\$649,861	\$0	\$0	\$0	\$9,160	\$659,021
Interfund Payable	0	0	0	0	616	616
Intergovernmental Payable	141,072	0	0	0	0	141,072
Deferred Revenue	3,136,969	636,964	0	471,527	100,747	4,346,207
<i>Total Liabilities</i>	<u>3,927,902</u>	<u>636,964</u>	<u>0</u>	<u>471,527</u>	<u>110,523</u>	<u>5,146,916</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	2,820	0	208,242	383,788	6,687	601,537
Reserved for Unclaimed Monies	879	0			0	879
Reserved for Property Taxes	15,603	3,285	0	0	533	19,421
Reserved for Budget Stabilization	33,356	0	0	0	0	33,356
Unreserved:						
Undesignated, Reported in:						
General Fund	435,967	0	0	0	0	435,967
Special Revenue Funds	0	0	0	0	9,410	9,410
Debt Service Fund	0	60,437	0	0	0	60,437
Capital Projects Funds	0	0	2,186,983	4,408,258	318,396	6,913,637
<i>Total Fund Balances</i>	<u>488,625</u>	<u>63,722</u>	<u>2,395,225</u>	<u>4,792,046</u>	<u>335,026</u>	<u>8,074,644</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,416,527</u>	<u>\$700,686</u>	<u>\$2,395,225</u>	<u>\$5,263,573</u>	<u>\$445,549</u>	<u>\$13,221,560</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2006*

<b>Total Governmental Fund Balances</b>	<b>\$8,074,644</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	26,642,775
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Property Taxes	192,900
Intergovernmental	471,527
Total	664,427
Bond Issuance costs will be amortized over the life of the bonds on the statement of net assets	129,826
The internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	113,783
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas, in governmental funds, an interest expenditure is reported when due.	(199,990)
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(9,452,192)
Bond Premium	(341,376)
Accretion on Bonds	(4,765)
Compensated Absences	(565,355)
Total	(10,363,688)
<i>Net Assets of Governmental Activities</i>	<b>\$25,061,777</b>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Bond Retirement	Locally Funded Initiative	School Facilities Commission	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$2,865,071	\$587,643	\$0	\$0	\$96,581	\$3,549,295
Intergovernmental	4,636,762	81,866	0	11,758,721	454,566	16,931,915
Interest	60,209	0	12,208	295,198	0	367,615
Tuition and Fees	22,063	0	0	0	0	22,063
Extracurricular Activities	0	0	0	0	49,021	49,021
Charges for Services	51,949	0	0	0	0	51,949
Miscellaneous	3,572	0	0	0	0	3,572
<i>Total Revenues</i>	<u>7,639,626</u>	<u>669,509</u>	<u>12,208</u>	<u>12,053,919</u>	<u>600,168</u>	<u>20,975,430</u>
<b>Expenditures</b>						
Current:						
Instruction:						
Regular	3,819,238	0	0	0	94,058	3,913,296
Special	250,654	0	0	0	307,016	557,670
Vocational	77,772	0	0	0	0	77,772
Support Services:						
Pupils	346,055	0	0	0	0	346,055
Instructional Staff	312,198	0	0	0	1,821	314,019
Board of Education	442,445	0	0	0	0	442,445
Administration	779,118	0	0	0	301	779,419
Fiscal	303,271	0	0	0	5,000	308,271
Operation and Maintenance of Plant	653,164	0	0	0	0	653,164
Pupil Transportation	625,980	0	0	0	0	625,980
Central	91,478	0	0	0	0	91,478
Extracurricular Activities	158,176	0	0	0	56,510	214,686
Capital Outlay	0	0	103,012	21,446,749	66,097	21,615,858
Debt Service:						
Principal Retirement	0	280,000	0	0	0	280,000
Interest and Fiscal Charges	0	355,531	0	0	0	355,531
<i>Total Expenditures</i>	<u>7,859,549</u>	<u>635,531</u>	<u>103,012</u>	<u>21,446,749</u>	<u>530,803</u>	<u>30,575,644</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(219,923)</u>	<u>33,978</u>	<u>(90,804)</u>	<u>(9,392,830)</u>	<u>69,365</u>	<u>(9,600,214)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	0	0	0	0	9,119	9,119
Transfers Out	(83,277)	0	0	0	0	(83,277)
<i>Total Other Financing Sources (Uses)</i>	<u>(83,277)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,119</u>	<u>(74,158)</u>
<i>Net Change in Fund Balances</i>	<u>(303,200)</u>	<u>33,978</u>	<u>(90,804)</u>	<u>(9,392,830)</u>	<u>78,484</u>	<u>(9,674,372)</u>
<i>Fund Balances Beginning of Year</i>	<u>791,825</u>	<u>29,744</u>	<u>2,486,029</u>	<u>14,184,876</u>	<u>256,542</u>	<u>17,749,016</u>
<i>Fund Balances End of Year</i>	<u>\$488,625</u>	<u>\$63,722</u>	<u>\$2,395,225</u>	<u>\$4,792,046</u>	<u>\$335,026</u>	<u>\$8,074,644</u>

See accompanying notes to the basic financial statements



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

Net Change in Fund Balances - Total Governmental Funds (\$9,674,372)

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

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

Capital Outlay Additions	21,628,084	
Depreciation	<u>(226,727)</u>	21,401,357

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

Property Taxes	27,031	
Intergovernmental	<u>(11,758,721)</u>	

Total		(11,731,690)
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In the statement of activities, interest is accrued on outstanding bonds, bond accretion, bond premium, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds an interest expenditure is reported when due and premiums and issuance costs are reported when bonds are issued.

Accrued Interest	3,267	
Annual Accretion	(4,765)	
Amortization of Premium on Bonds	13,655	
Amortization of Issuance Costs	<u>(5,193)</u>	

Total		6,964
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences		55,812
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		280,000
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The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental funds expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities.

		<u>108,073</u>
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Change in Net Assets of Governmental Activities		<u><u>\$446,144</u></u>
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See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Over
				(Under)
<b>Revenues</b>				
Taxes	\$3,126,560	\$2,862,555	\$2,862,555	\$0
Intergovernmental	4,400,000	4,619,928	4,619,928	0
Interest	52,241	44,181	44,181	0
Tuition and Fees	40,000	22,058	22,058	0
Charges for Services	30,000	51,949	51,949	0
Contributions and Donations	90,000	0	0	0
Miscellaneous	68,020	3,572	3,572	0
<i>Total Revenues</i>	7,806,821	7,604,243	7,604,243	0
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	3,813,398	3,827,119	3,827,119	0
Special	476,349	258,898	258,898	0
Vocational	71,898	76,277	76,277	0
Support Services:				
Pupils	238,987	348,825	348,825	0
Instructional Staff	257,755	305,568	305,568	0
Board of Education	423,460	443,139	443,139	0
Administration	709,546	797,408	797,408	0
Fiscal	291,132	312,570	312,570	0
Operation and Maintenance of Plant	701,156	661,524	661,524	0
Pupil Transportation	639,387	648,244	648,244	0
Central	73,362	85,752	85,752	0
Extracurricular Activities	172,882	162,804	162,804	0
<i>Total Expenditures</i>	7,869,312	7,928,128	7,928,128	0
<i>Excess of Revenues Over</i>				
<i>(Under) Expenditures</i>	(\$62,491)	(\$323,885)	(\$323,885)	\$0

(continued)

**Joseph Badger Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund (continued)*  
*For the Fiscal Year Ended June 30, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Uses</b>				
Transfers Out	(\$75,177)	(\$83,277)	(\$83,277)	\$0
<i>Net Change in Fund Balance</i>	(137,668)	(407,162)	(407,162)	0
<i>Fund Balance Beginning of Year</i>	1,585,796	1,585,796	1,585,796	0
Prior Year Encumbrances Appropriated	33,728	33,728	33,728	0
<i>Fund Balance End of Year</i>	<u>\$1,481,856</u>	<u>\$1,212,362</u>	<u>\$1,212,362</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**

*Statement of Fund Net Assets*

*Proprietary Funds*

*June 30, 2006*

	Business-Type Activity Enterprise Fund	Governmental Activity Internal Service Fund
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$0	\$120,414
Inventory Held for Resale	0	0
Materials and Supplies Inventory	0	0
<i>Total Current Assets</i>	0	120,414
Capital Assets, Net	26,227	0
<i>Total Assets</i>	26,227	120,414
<b>Liabilities</b>		
<i>Current Liabilities:</i>		
Accrued Wages	23,435	0
Intergovernmental Payable	14,800	0
Compensated Absences Payable	2,397	0
Claims Payable	0	6,631
<i>Total Current Liabilities</i>	40,632	6,631
<i>Long-Term Liabilities:</i>		
Compensated Absences Payable	6,726	0
<i>Total Liabilities</i>	47,358	6,631
<b>Net Assets</b>		
Invested in Capital Assets	26,227	0
Unrestricted (Deficit)	(47,358)	113,783
<i>Total Net Assets (Deficit)</i>	(\$21,131)	\$113,783

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2006*

	Business-Type Activity Enterprise Fund	Governmental Activity Internal Service Fund
<b>Operating Revenues</b>		
Charges for Services	\$0	\$154,099
Sales	189,192	0
<i>Total Operating Revenues</i>	<u>189,192</u>	<u>154,099</u>
<b>Operating Expenses</b>		
Salaries	127,803	0
Fringe Benefits	105,509	0
Purchased Services	15,375	4,206
Materials and Supplies	0	16,900
Cost of Sales	144,834	0
Claims	0	56,720
Depreciation	2,691	0
Other	751	0
<i>Total Operating Expenses</i>	<u>396,963</u>	<u>77,826</u>
<i>Operating Income (Loss)</i>	<u>(207,771)</u>	<u>76,273</u>
<b>Non-Operating Revenues</b>		
Donated Commodities	24,012	0
Contributions and Donations	0	30,000
Operating Grants	106,900	1,800
<i>Total Non-Operating Revenues</i>	<u>130,912</u>	<u>31,800</u>
<i>Income (Loss) Before Transfers</i>	<u>(76,859)</u>	<u>108,073</u>
Transfers In	74,158	0
<i>Change in Net Assets</i>	<u>(2,701)</u>	<u>108,073</u>
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(18,430)</u>	<u>5,710</u>
<i>Net Assets (Deficit) End of Year</i>	<u>(\$21,131)</u>	<u>\$113,783</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2006

	Business-Type Activity Enterprise Fund	Governmental Activity Internal Service Fund
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$189,192	\$0
Cash Received from Interfund Services	0	154,099
Cash Payments to Employees for Services	(130,430)	0
Cash Payments for Employee Benefits	(105,597)	0
Cash Payments to Suppliers for Goods and Services	(133,472)	(21,106)
Cash Payments for Claims	0	(56,580)
Other Cash Payments	(751)	0
<i>Net Cash Used for Operating Activities</i>	<u>(181,058)</u>	<u>76,413</u>
<i>Cash Flows from Noncapital Financing Activities</i>		
Operating Grants Received	106,900	1,800
Contributions and Donations	0	30,000
Transfers In	74,158	0
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>181,058</u>	<u>31,800</u>
<i>Net Increase in Cash and Cash Equivalents</i>	0	108,213
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>	<u>12,201</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$0</u>	<u>\$120,414</u>

(continued)

**Joseph Badger Local School District**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Fiscal Year Ended June 30, 2006

	Business-Type Activity Enterprise Fund	Governmental Activity Internal Service Fund
<b>Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities</b>		
Operating Income (Loss)	(\$207,771)	\$76,273
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:		
Depreciation	2,691	0
Donated Commodities Received During the Year	24,012	0
(Increase)/Decrease in Assets:		
Inventory Held for Resale	1,914	0
Materials and Supplies Inventory	811	0
Increase/(Decrease) in Liabilities:		
Accrued Wages	(2,627)	0
Compensated Absences Payable	275	0
Intergovernmental Payable	(363)	0
Claims Payable	0	140
<i>Total Adjustments</i>	26,713	140
<i>Net Cash Used in Operating Activities</i>	(\$181,058)	\$76,413

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2006*

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	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$15,559	\$33,074
Receivables:		
Accrued Interest	63	0
<i>Total Assets</i>	<u>15,622</u>	<u>\$33,074</u>
<b>Liabilities</b>		
Due to Students	0	\$33,074
<i>Total Liabilities</i>	<u>0</u>	<u>\$33,074</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>15,622</u>	
<i>Total Net Assets</i>	<u>\$15,622</u>	

See accompanying notes to the basic financial statements



**Joseph Badger Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Private Purpose Trust
	Scholarship
<b>Additions</b>	
Interest	\$623
<b>Deductions</b>	
Scholarships Awarded	311
<i>Change in Net Assets</i>	312
<i>Net Assets Beginning of Year</i>	15,310
<i>Net Assets End of Year</i>	\$15,622

See accompanying notes to the basic financial statements

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**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 1 - Description of the School District and Reporting Entity**

Joseph Badger Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by the State and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by forty-one classified employees, sixty-nine certificated full-time teaching personnel, and six administrators who provide services to 1,085 students and other community members.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure 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 Joseph Badger Local 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. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. The School District has no component units.

The School District participates in six jointly governed organizations, and three public entity risk pools and is associated with a related organization. These organizations are presented in Notes 17, 18 and 19 to the financial statements. These organizations are:

Jointly Governed Organizations:

- Trumbull County Career and Technical Center
- Northeast Ohio Management Information Network
- Northeast Ohio Instructional Media Center
- Trumbull Student Assistance Consortium
- Northeast Ohio Special Education Regional Resource Center
- Region 12 Professional Development Center

Public Entity Risk Pools:

- Ohio School Boards Association Workers' Compensation Group Rating Program
- Trumbull County Schools Employee Insurance Benefits Consortium
- Ohio School Risk Sharing Authority d/b/a Schools of Ohio Risk Sharing Authority (SORSA)

Related Organization

- Kinsman Public Library

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of Joseph Badger Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The School District has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its business type activities and enterprise fund. The most significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

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

***B. Fund Accounting***

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

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

**Bond Retirement Fund** This fund accounts for property tax monies used for the payment of principal and interest and fiscal charges on general obligation debt.

**Locally Funded Initiative Fund** This fund accounts for taxes and interest revenue to be used to construct additional capital facilities needed for the new K-12 facility.

**School Facilities Commission Fund** The State school facilities commission fund accounts for revenue received from the State of Ohio, interest revenue and bond proceeds to be used for the construction of a new pre-kindergarten thru grade twelve building.

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

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the School District accounts for the financial transactions related to the food service operations of the School District.

**Internal Service Funds** The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District utilizes an internal service fund to account for the operation of the School District's self insurance program for employee dental benefits and health and wellness programs.

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

**C. Measurement Focus**

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

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Like the government-wide statements, the enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

***D. Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

On governmental fund financial statements, receivables that will not be collected within the 60 day available period have also been reported as deferred revenue.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***E. Cash and Cash Equivalents***

Cash received by the School District is pooled for investment purposes. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. During fiscal year 2006, investments were limited to AIM Money Market Mutual Funds the Federal Home Loan Bank Bonds and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value which is based on quoted market prices. Fair value of mutual funds is based on quoted market 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, 2006.

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 School Facilities Commission Capital Projects fund during fiscal year 2006 amounted to \$295,198.

Investments of the 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.

***F. Restricted Assets***

Assets are reported as restricted when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund is money required by State statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

***G. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated and purchased food held for resale, and materials and supplies held for consumption.

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

***H. Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	50 years	N/A
Buildings and Improvements	50 years	N/A
Furniture and Equipment	8-20 years	8-20 years
Vehicles	10 years	N/A
Textbooks	5 years	N/A

***I. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

***J. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 that the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave



**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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and employee wage rates at fiscal year end taking into consideration any limits specified in the School District's termination policy. The entire liability is reported on the government-wide financial statements.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgements compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. The School District will repay its short term notes on a budgetary basis out of its bond retirement Fund. On a GAAP basis, the note will be repaid from the local Ohio school facilities commission capital projects fund, the fund that received the proceeds. The monies used to pay the note have been allocated accordingly. Bonds are recognized as a liability on the fund financial statements when due.

***L. Fund Balance Reserves***

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

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 unclaimed monies represents cash that, under Ohio law, must remain unclaimed for five years before it becomes available for appropriation. The reserve for budget stabilization represents money set aside to protect against cyclical changes in revenues and expenditures.

***M. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$33,356 of restricted net assets. Net assets restricted for other purposes include: district managed student activities, principals' activities, and various grant activities.

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

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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***N. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

***O. Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

***P. Interfund Activity***

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

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

***Q. Extraordinary and Special Items***

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

***R. Estimates***

The preparation of the 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.

***S. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a time limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Prior to year end the Board of Education adopted appropriations which match actual expenditures plus encumbrances and requested a certificate of estimated resources to match actual revenues.

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

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

**Note 3 - Change in Accounting Principles**

For fiscal year 2006, the School District has implemented GASB Statement No. 47, "Accounting for Termination Benefits". GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

**Note 4 – Accountability and Compliance**

A. Accountability

The following funds have deficit fund balances/net assets as of June 30, 2006:

<u>Fund</u>	<u>Amount</u>
Special Revenue Funds:	
Principals	\$4,882
District Managed Activities	229
Title II-A	9,458
Enterprise Fund:	
Food Service	21,131

The special revenue fund deficits are caused by the recognition of expenditures on the modified accrual basis of accounting. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

Management is also certain that the deficit in food service will be alleviated when the School District merges the four cafeterias into one at the beginning of fiscal year 2007.

B. Compliance

The title I fund had original appropriations in excess of estimated resources and carryover balances in the amount of \$3,967, contrary to Section 5705.39, Revised Code. The violation was corrected by fiscal year

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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end and management has indicated that appropriations will be closely monitored to ensure no future violations occur.

**Note 5 - Budgetary Basis of Accounting**

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$303,200)
Net Adjustment for Revenue Accruals	(35,383)
Net Adjustment for Expenditure Accruals	(65,759)
Adjustment for Encumbrances	<u>(2,820)</u>
Budget Basis	<u><u>(\$407,162)</u></u>

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 6 - Deposits and Investments**

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

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

Interim deposits are deposits of interim monies. Interim 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 can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
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;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

**Deposits**

***Custodial Credit Risk*** 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 possession of an outside party. At fiscal year end, \$300,000 of the School District's bank balance of \$8,988,713 was

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial 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 one hundred five percent of the deposited being secured.

**Investments**

As of June 30, 2006, the School District had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity
AIM Money Market Mutual Funds	\$59,618	29 days
Federal Home Loan Bank Bonds	4,900,000	217 days
STAROhio	3,304,551	34.8 days
Total Portfolio	\$8,264,169	

**Interest Rate Risk** The School District has no investment policy that addresses the interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

**Credit Risk** The AIM Money Market Mutual Fund and the Federal Home Loan Bank Bonds carry a rating of AAA by Standard & Poor's and STAR Ohio also carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2006:

Investment	Percentage of Investments
AIM Money Market Mutual Funds	.72%
Federal Home Loan Bank Bonds	59.29%
STAR Ohio	39.99%

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 7- Property Taxes**

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

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

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Trumbull 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, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2006 was \$15,603 in the general fund, \$3,285 in the bond retirement debt service fund, \$247 in the OSFC permanent improvement capital projects fund, and \$286 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$13,087 in the general fund \$2,779 in the bond retirement debt service fund, \$215 in the OSFC permanent improvement capital projects fund and \$263 in the permanent improvement capital projects fund.

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred. The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural /Residential and Other Real Estate	\$92,613,830	89.27%	\$105,860,000	92.55%
Public Utility Personal	4,413,860	4.25	4,351,050	3.81
Tangible Personal Property	6,724,556	6.48	4,160,565	3.64
<b>Total</b>	<u>\$103,752,246</u>	<u>100.00%</u>	<u>\$114,371,615</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$44.20		 \$42.60	

**Note 8 - Receivables**

Receivables at June 30, 2006, consisted of taxes, accounts (rent and student fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year except for the State school facilities commission grant. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Transportation Reimbursement	\$1,163
Stipend Reimbursement	15,671
State School Facilities Commission Grant	471,527
 Total Governmental Activities	 <u>\$488,361</u>



**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**Note 9 - Capital Assets**

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

	Balance 6/30/05	Additions	Deductions	Balance 6/30/06
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$528,682	\$0	\$0	\$528,682
Construction in Progress	2,968,778	21,582,550	0	24,551,328
Total Capital Assets not being depreciated	<u>3,497,960</u>	<u>21,582,550</u>	<u>0</u>	<u>25,080,010</u>
Capital Assets being depreciated:				
Land Improvements	119,808	0	0	119,808
Buildings and Improvements	2,199,623	0	0	2,199,623
Furniture and Equipment	1,511,091	0	0	1,511,091
Vehicles	875,296	0	0	875,296
Textbooks	498,890	45,534	0	544,424
Total Capital Assets being depreciated	<u>5,204,708</u>	<u>45,534</u>	<u>0</u>	<u>5,250,242</u>
Less Accumulated Depreciation:				
Land Improvements	(75,480)	(3,873)	0	(79,353)
Buildings and Improvements	(1,589,358)	(20,705)	0	(1,610,063)
Furniture and Equipment	(885,460)	(80,863)	0	(966,323)
Vehicles	(535,741)	(70,527)	0	(606,268)
Textbooks	(374,711)	(50,759)	0	(425,470)
Total Accumulated Depreciation	<u>(3,460,750)</u>	<u>(226,727)</u> *	<u>0</u>	<u>(3,687,477)</u>
Total Capital Assets being depreciated	<u>1,743,958</u>	<u>(181,193)</u>	<u>0</u>	<u>1,562,765</u>
Governmental Activities Capital Assets, Net	<u>\$5,241,918</u>	<u>\$21,401,357</u>	<u>\$ 0</u>	<u>\$26,642,775</u>
<b>Business-Type Activity</b>				
Furniture and Equipment	\$156,528	\$0	0	\$156,528
Less Accumulated Depreciation	<u>(127,610)</u>	<u>(2,691)</u>	<u>0</u>	<u>(130,301)</u>
Business-Type Activities Capital Assets, Net	<u>\$28,918</u>	<u>(\$2,691)</u>	<u>\$0</u>	<u>\$26,227</u>

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

Instruction:	
Regular	\$105,096
Special	2,648
Vocational	1,053
Support Services:	
Pupils	928
Instructional Staff	6,637
Board of Education	1,604
Administration	5,898
Fiscal	4,040
Operation and Maintenance of Plant	26,845
Pupil Transportation	70,527
Central	541
Extracurricular Activities	910
Total Depreciation Expense	\$226,727

**Note 10 - Risk Management**

**A. Liability and Property**

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 2006, the School District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided by SORSA is as follows:

<b>General Liability</b>	
Bodily Injury, Personal Injury, Products/Completed Operations	\$1,000,000
Fire Legal Liability	500,000
Employee Benefits Liability	1,000,000
Medical Payments (\$5,000 per accident)	1,000/person
General Liability Annual Aggregate	3,000,000
<b>Educators' Legal Liability – Errors and Omissions (\$5,000 deductible)</b>	1,000,000
<b>Automobile Liability</b>	50,000
Owned/Leased Vehicles includes Hired/Non-owned (no deductible)	1,000,000
Uninsured Motorists (no deductible)	50,000
<b>Automobile Physical Damage (\$1,000 deductible)</b>	Actual Value
<b>Property Insurance Limit (Replacement Cost with \$1,000 deductible)</b>	19,890,159
Crime, Forgery, Computer Fraud, Theft, Disappearance, Destruction	50,000
Earthquake and Flood (\$100,000 deductible)	1,000,000
Unintentional Errors and Omissions	1,000,000
other property damage included (\$1,000 deductible)	Various

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

***B. Workers' Compensation***

For fiscal year 2006, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (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 participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

***C. Employee Medical Benefits***

The School District has contracted with the Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

The School District has elected to provide dental coverage benefits through a self-insurance program. The School District maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. This plan provides a dental plan with a \$75 family and \$25 single deductible. A third party administrator, Professional Benefits Administrators, located in Austintown, Ohio, reviews all dental claims which are then paid by the School District. The School District pays into the self-insurance internal service fund \$70.90 per family coverage or \$19.78 per single coverage per month for the dental plan. The premiums are paid by the fund that pays the salary for the employee and are based on historical cost information.

The claims liability estimated by the third party administrator to be \$6,631 reported in the internal service fund at June 30, 2006 is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The Change in the fund's claims liability amount for 2006 was:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2005	\$0	\$36,826	\$30,335	\$6,491
2006	6,491	56,720	56,580	6,631

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 11 - Pension Plans**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, by calling (800) 878-5853, or by visiting the SERS website at [ohsers.org](http://ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$109,419, \$119,652, and \$74,205 respectively; 85.71 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

***B. State Teachers Retirement System***

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

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

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005 and 2004 were \$496,719, \$534,340, and \$481,409 respectively; 85.74 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,054 made by the School District and \$6,718 made by the plan members.

***C. Social Security System***

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

**Note 12 - Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$38,193 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800, however, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$35,373.

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

**Note 13 - Other Employee Benefits**

**A. *Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum accumulation of 80 days for both classified and certified employees. An employee receiving such payment must meet the retirement provisions set by STRS or SERS.

**B. *Life Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through the Trumbull County Schools Employee Insurance Benefits Consortium at a cost of \$.12 per \$1,000 for the first \$50,000 and \$.19 per \$1,000 after that. The coverage provided follows:

Class	Class Description	Amount of Coverage	Class	Class Description	Amount of Coverage
I	Full Time Certified	\$50,000	VI	Classified Cafeteria Aide	12,500
II	Full Time Classified	25,000	VII	Half Day Custodial	12,500
III	Part Time Certified	25,000	VIII	Building Secretaries	25,000
IV	Treasurer	200,000	IX	Administrators	50,000
V	Half Day Classified	\$12,500	X	Superintendent	100,000

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**Note 14 – Long-Term Obligations**

The changes in the School District’s long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/05	Additions	Reductions	Principal Outstanding 6/30/06	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2005 New School Construction					
Serial Bonds 2.00%-3.90%	\$9,625,000	\$0	\$280,000	\$9,345,000	\$285,000
Capital Appreciation Bonds 3.70%	99,993	0	0	99,993	0
Accretion on Capital Appreciation Bonds	7,199	4,765	0	11,964	0
Unamortized Premium	355,031	0	13,655	341,376	0
<i>Total General Obligation Bonds</i>	<u>10,087,223</u>	<u>4,765</u>	<u>293,655</u>	<u>9,798,333</u>	<u>285,000</u>
Compensated Absences	<u>621,167</u>	<u>723,839</u>	<u>779,651</u>	<u>565,355</u>	<u>36,586</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$10,708,390</u>	<u>\$728,604</u>	<u>\$1,073,306</u>	<u>\$10,363,688</u>	<u>\$321,586</u>
Business Type Activities:					
Compensated Absences	<u>\$8,848</u>	<u>\$2,757</u>	<u>\$2,482</u>	<u>\$9,123</u>	<u>\$2,397</u>

On June 24, 2003, Joseph Badger Local School District issued \$9,999,993 in general obligation bonds, which included serial bonds, current interest bonds and capital appreciation bonds to fund the construction of the new pre-kindergarten thru grade twelve building. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2031. The bonds were issued at a premium of \$382,341. The final maturity amount of the capital appreciation bonds will be \$350,000. The bonds were issued to repay the short term bond anticipation notes.

All general obligation bonds will be paid from property taxes.

Compensated absences will be paid from the general, title I special revenue fund and the food service enterprise fund. There is \$2,397 in compensated absences due within one year for the business type activities although there is no accrued vacation, one retirement is expected.

The School District’s overall debt margin was \$912,174 with an un-voted debt margin \$114,372 at June 30, 2006. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006 are as follows:

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

	Principal	Interest
2007	\$ 285,000	\$ 339,990
2008	290,000	334,240
2009	300,000	328,340
2010	305,000	321,833
2011	310,000	314,296
2012-2016	980,000	2,142,740
2017-2021	1,460,000	1,418,268
2022-2026	2,160,000	936,310
2027-2031	2,655,000	423,445
2032	600,000	12,900
Totals	\$9,345,000	6,572,362

The serial bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, of each of the years 2023 through 2030 (with the balance of \$600,000 to be paid at stated maturity on December 1, 2031) at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2023	\$430,000
2024	450,000
2025	470,000
2026	490,000
2027	510,000
2028	530,000
2029	550,000
2030	575,000

**Note 15 – Interfund Transfers**

Transfers made during the year ended June 30, 2006 were as follows:

<b>Fund Name</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$0	\$83,276
District Managed Student Activity	9,118	0
Food Service	74,158	0
Totals	\$83,276	\$83,276

District managed student activity special revenue fund had an operating loss that was defrayed by the general fund. A transfer was made from the general fund into the food service business type fund to provide for the payment of expenses and maintain the food service operations for the students.



**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**Note 16 - Contingencies**

***A. Grants***

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

***B. Litigation***

Joseph Badger Local School District is not currently a party to any legal proceedings.

**Note 17 - Jointly Governed Organizations**

***A. Trumbull County Career and Technical Center***

The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a board consisting of one representative from each of the fifteen participating school districts. The board is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. Joseph Badger Local School District students may attend the vocational school. Each school district's control is limited to its representation on the board. During fiscal year 2006, no monies were paid to the Career and Technical Center. Financial information can be obtained from the Trumbull County Career and Technical Center, Treasurer, at 528 Educational Highway, Warren, Ohio, 44483.

***B. Northeast Ohio Management Information Network (NEOMIN)***

The Northeast Ohio Management Information Network (NEOMIN) is a jointly governed organization among thirty school districts in Trumbull and Ashtabula counties. The jointly governed 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 districts. Each of the districts supports NEOMIN based upon a per pupil charge. The School District paid \$27,420 to NEOMIN during fiscal year 2006.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a principal and treasurer (non-voting members who must be employed by a participating school district, the fiscal agent or NEOMIN). The School District was represented on the Governing Board by the Superintendent during fiscal year 2006. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Financial information can be obtained from the Trumbull County Educational Service Center, at 347 North Park Avenue, Warren, Ohio, 44481.

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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***C. Northeast Ohio Instructional Media Center (NEOIMC)***

The Northeast Ohio Instructional Media Center (NEOIMC) is a jointly governed organization among forty-five school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the School District. Each member pays a monthly premium based on use of the media materials.

NEOIMC is governed by an advisory committee made up of a member from a parochial school, a joint vocational school, one County Superintendent from each participating county, one city superintendent and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. In fiscal year 2006, the School District paid \$1,547, which represents 1.71 percent of total contributions. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, at 347 North Park Avenue, Warren, Ohio, 44481.

***D. Trumbull Student Assistance Consortium (TSAC)***

The Trumbull Student Assistance Consortium (TSAC) is a jointly governed organization among sixteen school districts. The jointly governed organization was formed for the purpose of aiding each participating district in establishing an effective comprehensive alcohol, tobacco and other drug prevention/intervention program that will help make schools drug free.

TSAC is governed by an executive management council made up five superintendents of the participating districts whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, at 347 North Park Avenue, Warren, Ohio, 44481.

***E. Northeast Ohio Special Education Regional Resource Center (NEO/SERRC)***

The Northeast Ohio Special Education Regional Resource Center (NEO/SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

NEO/SERRC is governed by a board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, at 2801 Market Street, Youngstown, Ohio, 44507.

***F. Region 12 Professional Development Center (Center)***

The Region 12 Professional Development Center (Center) is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana Counties. The jointly governed organization was formed for the purpose of establishing 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.

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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The Center is governed by a board made up of nineteen representatives of the participating school districts, the business community, and Youngstown State University, whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, at 347 North Park Avenue, Warren, Ohio, 44481.

**Note 18 - Public Entity Risk Pools**

***A. Insurance Purchasing Pool***

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

***B. Shared Risk Pools***

The School District participates in the Trumbull County Schools Employee Insurance Benefits Consortium. It is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenue are generated from charges for services.

The School District also participates in the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is created and organized pursuant to, and as authorized by, Section 2744.081 of the Ohio Revised Code. SORSA provides a joint self-insurance pool to assist members in reducing losses and injuries to persons and property which might result from claims being made against the School District, its employees or officers. All revenues are generated from charges for services. The governance consists of 9 Directors elected from the pool of 65 members, serving two year terms. Officers are selected from the 9 Directors for a one year term.

**Note 19 - Related Organization**

The Kinsman Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Joseph Badger Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kinsman Public Library, Martha L. Huscroft, Clerk/Treasurer, at 6420 Church Street, Kinsman, Ohio, 44428.

**Note 20 - Set-Aside Calculations**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount

**Joseph Badger Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continues to be required to be set-aside. The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2005	\$5,769	\$0	\$33,356
Prior Year Carryover	0	(10,857,589)	
Current Year Set-aside Requirement	154,191	154,191	0
Current Year Offsets	0	(108,202)	0
Qualifying Disbursements	(199,187)	(32,048)	0
Totals	(\$39,227)	(\$10,843,648)	\$33,356
Set-aside Balance Carried Forward to Future Fiscal Years	\$39,227	\$10,843,648	\$33,356
Set-aside Reserve Balance as of June 30, 2006	\$0	\$0	\$33,356

The School District had qualifying disbursements during the fiscal year that reduced the textbook and capital acquisition set aside amount to below zero. This extra amount may be used to reduce the set-aside requirement of future years. The total reserve balance for the set-asides at the end of the fiscal year was \$33,356.

**Note 21 – Contractual Commitments**

At June 30, 2006 the School District had \$5,788,373 in contractual commitments for the construction of the new K-12 facility.



## **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***

Joseph Badger Local School District  
Trumbull County  
7119 State Route 7  
Kinsman, Ohio 44428

To The Board of Education:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Joseph Badger Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 27, 2006, we reported one matter involving internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated December 27, 2006, we reported one matter related to noncompliance we deemed immaterial.

Joseph Badger Local School District  
Trumbull 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. 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

December 27, 2006



**Mary Taylor, CPA**  
Auditor of State

**JOSEPH BADGER LOCAL SCHOOL DISTRICT**  
**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**FEBRUARY 27, 2007**