

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS  
(AUDITED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2006***

**JILL NOVAK, TREASURER**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Mount Gilead Exempted Village School District  
145 1/2 North Cherry Street  
Mount Gilead, Ohio 43338

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 1, 2007

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT**  
**MORROW COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education  
Mount Gilead Exempted Village School District  
145 ½ N. Cherry Street  
P.O. Box 239  
Mount Gilead, Ohio 43338

We have audited the accompanying financial statements of the governmental activities, each major fund, each component unit, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District, Morrow County (the "District"), as of and for the fiscal 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, each component unit, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District, Morrow County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3B to the financial statements, the District restated capital assets due to errors and omissions in prior years.

Independent Auditor's Report  
Mount Gilead Exempted Village School District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Julian & Grube, Inc.  
December 22, 2006

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$261,840 which represents a 5.31% increase from 2005.
- General revenues accounted for \$11,080,514 in revenue or 82.41% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,364,916 or 17.59% of total revenues of \$13,445,430.
- The District had \$13,306,996 in expenses related to governmental activities; \$2,364,916 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,080,514 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$10,893,687 in revenues and \$10,837,902 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$55,785 from \$248,449 to \$304,234.
- The debt service fund had \$8,101,430 in revenues and other financing sources and \$8,013,630 in expenditures and other financing uses. During fiscal year 2006, the debt service fund's fund balance increased \$87,800 from \$862,457 to \$950,257.

**Using these Basic Financial Statements**

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

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



**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

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

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

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

The District's statement of net assets and statement of activities can be found on pages 14-16 of this report.

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

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

*Proprietary Funds*

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical, dental and vision self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-64 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2006 and 2005. Certain 2005 balances have been restated due to corrections made to the capital assets as described in Note 3B in the notes to the financial statements.

	Net Assets	
	Governmental Activities 2006	Restated Governmental Activities 2005
<b><u>Assets</u></b>		
Current and other assets	\$ 7,479,921	\$ 6,651,936
Capital assets, net	<u>12,983,019</u>	<u>13,358,996</u>
Total assets	<u>20,462,940</u>	<u>20,010,932</u>
<b><u>Liabilities</u></b>		
Current liabilities	4,846,811	4,599,348
Long-term liabilities	<u>10,422,819</u>	<u>10,480,114</u>
Total liabilities	<u>15,269,630</u>	<u>15,079,462</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	5,169,968	5,132,506
Restricted	1,508,004	1,103,890
Unrestricted (deficit)	<u>(1,484,662)</u>	<u>(1,304,926)</u>
Total net assets	<u>\$ 5,193,310</u>	<u>\$ 4,931,470</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$5,193,310. Of this total, \$1,508,004 is restricted in use.

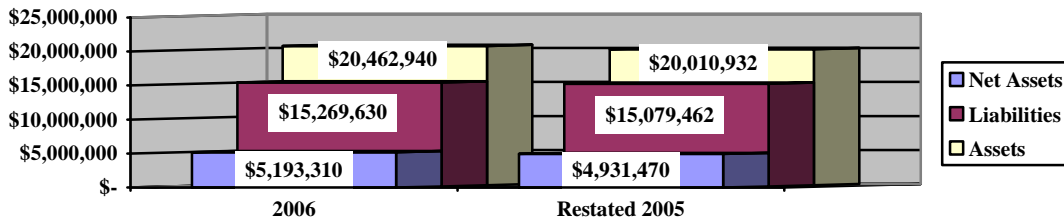
**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

At year-end, capital assets represented 63.45% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$5,169,968. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,508,004, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$1,484,662.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2006 and 2005. Certain 2005 balances have been restated due to corrections made to the capital assets as described in Note 3B in the notes to the financial statements.

**Change in Net Assets**

	Governmental Activities 2006	Restated Governmental Activities 2005
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 1,338,575	\$ 1,199,884
Operating grants and contributions	1,009,829	988,131
Capital grants and contributions	16,512	-
General revenues:		
Property taxes	3,620,488	3,358,869
Income taxes	902,774	860,219
Grants and entitlements	6,140,694	6,095,451
Investment earnings	99,946	41,870
Other	316,612	324,784
<b>Total revenues</b>	<b>13,445,430</b>	<b>12,869,208</b>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

	<b>Change in Net Assets</b>	
	Governmental Activities 2006	Restated Governmental Activities 2005
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,991,940	\$ 4,478,671
Special	1,232,992	1,173,466
Vocational	347,938	309,136
Other	1,288,485	1,118,262
Support services:		
Pupil	476,375	418,849
Instructional staff	626,118	804,635
Board of education	53,049	60,777
Administration	776,487	844,428
Fiscal	370,960	363,233
Operations and maintenance	1,423,680	1,317,009
Pupil transportation	609,581	504,398
Central	27,081	16,450
Operations of non-instructional services:		
Food service operations	394,833	323,355
Other non-instructional services	1,000	1,223
Extracurricular activities	289,639	306,913
Interest and fiscal charges	396,838	436,809
<b>Total expenses</b>	<b><u>13,306,996</u></b>	<b><u>12,477,614</u></b>
Special item - gain on sale of building	123,406	-
Change in net assets	261,840	391,594
Net assets at beginning of year (restated)	<u>4,931,470</u>	<u>4,539,876</u>
Net assets at end of year	<u><u>\$ 5,193,310</u></u>	<u><u>\$ 4,931,470</u></u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$261,840. Total governmental expenses of \$13,306,996 were offset by program revenues of \$2,364,916 and general revenues of \$11,080,514. Program revenues supported 17.77% of the total governmental expenses.

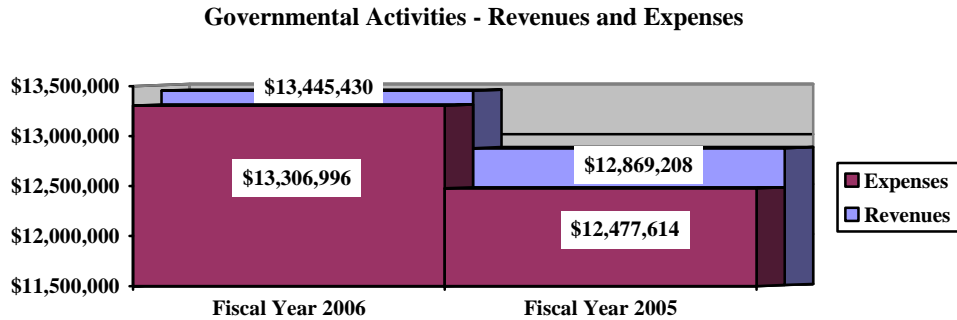
The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 79.31% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,861,355 or 59.08% of total governmental expenses for fiscal 2006.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The table below shows the cost of program services for 2006 and 2005.

	<b>Governmental Activities</b>			
	Total Cost of Services 2006	Net Cost of Services 2006	Restated Total Cost of Services 2005	Restated Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,991,940	\$ 3,773,265	\$ 4,478,671	\$ 3,382,461
Special	1,232,992	864,288	1,173,466	834,838
Vocational	347,938	347,938	309,136	309,136
Other	1,288,485	1,288,485	1,118,262	1,118,262
Support services:				
Pupil	476,375	461,737	418,849	418,690
Instructional staff	626,118	456,125	804,635	620,031
Board of education	53,049	53,049	60,777	60,777
Administration	776,487	696,576	844,428	748,146
Fiscal	370,960	368,828	363,233	361,064
Operations and maintenance	1,423,680	1,393,202	1,317,009	1,304,061
Pupil transportation	609,581	609,581	504,398	504,058
Central	27,081	22,081	16,450	11,627
Operations of non-instructional services:				
Food service operations	394,833	31,637	323,355	16,749
Other non-instructional services	1,000	1,000	1,223	153
Extracurricular activities	289,639	177,450	306,913	162,737
Interest and fiscal charges	396,838	396,838	436,809	436,809
<b>Total expenses</b>	<b>\$ 13,306,996</b>	<b>\$ 10,942,080</b>	<b>\$ 12,477,614</b>	<b>\$ 10,289,599</b>

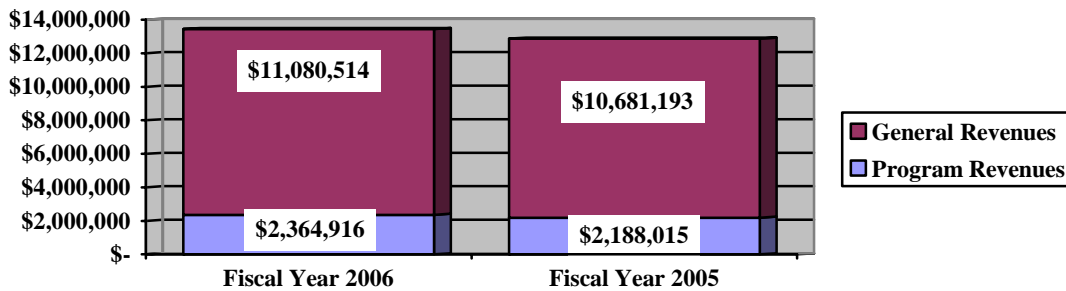
**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 79.81% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.23%. The District's taxpayers, and the State of Ohio, as a whole, are by far the primary supports for District's students.

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

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,656,536, which is higher than last year's total of \$1,191,598. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 304,234	\$ 248,449	\$ 55,785	22.45 %
Debt Service	950,257	862,457	87,800	10.18 %
Other Governmental	<u>402,045</u>	<u>80,692</u>	<u>321,353</u>	398.25 %
Total	<u>\$ 1,656,536</u>	<u>\$ 1,191,598</u>	<u>\$ 464,938</u>	39.02 %

**General Fund**

The District's general fund balance increased \$55,785. The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceeded expenditures for fiscal year 2006 by \$55,785. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

	<u>2006</u>	<u>2005</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,501,460	\$ 3,288,889	\$ 212,571	6.46 %
Tuition	905,951	714,384	191,567	26.82 %
Earnings on investments	96,746	40,334	56,412	139.86 %
Intergovernmental	6,042,440	5,995,356	47,084	0.79 %
Other revenues	<u>347,090</u>	<u>337,732</u>	<u>9,358</u>	2.77 %
 Total	 <u>\$10,893,687</u>	 <u>\$ 10,376,695</u>	 <u>\$ 516,992</u>	 4.98 %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,718,360	\$ 6,175,725	\$ 542,635	8.79 %
Support services	3,940,341	3,935,144	5,197	0.13 %
Extracurricular activities	172,112	155,318	16,794	10.81 %
Capital outlay	-	31,040	(31,040)	(100.00) %
Debt service	<u>7,089</u>	<u>-</u>	<u>7,089</u>	100.00 %
 Total	 <u>\$10,837,902</u>	 <u>\$ 10,297,227</u>	 <u>\$ 540,675</u>	 5.25 %

***Debt Service Fund***

The debt service fund had \$8,101,430 in revenues and other financing sources and \$8,013,630 in expenditures and other financing uses. During fiscal year 2006, the debt service fund's fund balance increased \$87,800 from \$862,457 to \$950,257.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues and other financing sources were \$10,647,267. Actual revenues and other financing sources for fiscal 2006 was \$10,908,536. This represents a \$261,269 increase over original and final budgeted revenues.

General fund original appropriations were \$10,812,396 and final appropriations were \$11,017,727. The actual budget basis expenditures for fiscal year 2006 totaled \$10,863,679, which was \$154,048 less than the final budget appropriations.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2006, the District had \$12,983,019 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. Certain 2005 balances have been restated due to corrections made to the capital assets as described in Note 3.B. in the notes to the financial statements. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	Restated 2005
Land	\$ 26,121	\$ 26,121
Land improvements	117,604	129,983
Building and improvements	11,953,322	12,162,096
Furniture and equipment	695,440	791,903
Vehicles	190,532	248,893
Total	\$ 12,983,019	\$ 13,358,996

The overall decrease in capital assets of \$375,977 is due to depreciation expense of \$386,977 exceeding capital outlays of \$11,000 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2006, the District had \$9,439,452 in general obligation bonds outstanding. Of this total, \$330,000 is due within one year and \$9,109,452 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2006	2005
General obligation bonds	\$ 9,439,452	\$ 7,786,215
Bond anticipation note	-	2,000,000
Total	\$ 9,439,452	\$ 9,786,215

At June 30, 2006, the District's overall legal debt margin was \$5,134,437, and an unvoted debt margin of \$146,546.

See Note 11 to the basic financial statements for additional information on the District's debt administration.



**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**Current Financial Related Activities**

The District's financial future certainly has its challenges. The challenges are at both the local and state levels. Local and state challenges will continue with the District's heavy reliance on both for operational funds. Currently, the local and state tax dollars support forty and sixty percent of the operations respectively.

Although the District relies heavily on its property taxpayers to support operations, the support for the school is very strong as evidenced by recent levy outcomes. Since 1999 the local taxpayers have supported the District by passing the following:

- 1999 – Renewal of a .75% Income Tax levy for a period of five years.
- 1999 – 4.7 mill Bond Issue in the principal amount of \$9,000,000.
- 2000 – Replacement of a 0.5 mill Permanent Improvement levy.
- 2003 – Renewal of a .75% Income Tax levy for a period of five years.
- 2004 – Replacement of a 0.75 mill Permanent Improvement levy.

These additional revenues supported by the bond and permanent improvement levies cost local taxpayers annually approximately \$720,000 and \$40,000 respectively.

The community last passed a new operating levy May 1994, for a period of five years. This Income Tax levy has subsequently been renewed twice. This is currently the only fixed term operating levy the District collects.

The District's five-year forecast is certainly challenging. In efforts to avoid any projected deficit, the District has implemented approximately seven hundred thousand dollars in budget cuts over the last two school years and is looking to cut an additional three hundred thousand dollars out of the upcoming school year. In addition, the School District has placed a new .75% Income Tax levy on the May 2005 ballot in an effort to limit any further academic cuts.

The following factors are causing the District to make the above-mentioned budgetary cuts and return to the voters for additional operating monies:

- Bankruptcy and closing of local manufacturing plant.
- State legislators phasing out inventory portion of Personal Property Tax.
- State Legislators phasing out Personal Property Tax Exemption.
- State Legislators reducing the State Formula Per Pupil Funding increase.
- Reduction in investment income due to reduction in market rates.
- Increase in Health Insurance premiums
- Utility cost increase, primarily due to natural gas prices.
- Loss of revenues to community schools.
- Loss of revenues through open enrollment.
- Increase special education costs due to additional students.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education funding system, one that was neither 'adequate' nor 'equitable'. Since 1997 the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'adequate' nor 'equitable'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding system. The decision identified aspects of the current plan that require modification. In general, it was expected that the decision would result in an increase in overall State funding for education. On December 11, 2002, the Ohio Supreme Court issued another opinion regarding the State's school funding plan. The decision reaffirmed the earlier decisions that Ohio's current school funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what, if any, effect these decision will have on its future State funding, or financial operation.

The District has not anticipated any meaningful growth in State revenue.

As a result of the challenges mentioned above, it is imperative the District's management continue to carefully and prudently plan the future of this District in order to provide the necessary resources to meet the students need over the next few years.

**Contacting the District Treasurer**

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the School District's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact Jill Novak, Treasurer, at Mt. Gilead Exempted Village School District, 145 ½ North Cherry Street, Mt. Gilead, OH 43338.

**BASIC  
FINANCIAL STATEMENTS**

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Primary Government</b>	<b>Component Units</b>	
	<b>Governmental Activities</b>	<b>GOAL Digital Academy</b>	<b>Tommorrow Center</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . .	\$ 2,109,776	\$ 154,603	\$ 257,263
Receivables:			
Taxes . . . . .	5,051,099	-	-
Intergovernmental . . . . .	65,332	10,993	29,224
Due from component units . . . . .	91,387	-	-
Prepayments . . . . .	12,473	-	1,844
Materials and supplies inventory . . . . .	7,188	-	-
Unamortized bond issue costs . . . . .	142,666	-	-
Capital assets:			
Land . . . . .	26,121	-	-
Depreciable capital assets, net . . . . .	12,956,898	150,961	143,227
Total capital assets, net. . . . .	12,983,019	150,961	143,227
Total assets. . . . .	20,462,940	316,557	431,558
<b>Liabilities:</b>			
Accounts payable. . . . .	79,599	-	-
Accrued wages and benefits . . . . .	980,530	-	-
Pension obligation payable. . . . .	238,614	-	-
Intergovernmental payable . . . . .	91,675	-	100
Due to primary government. . . . .	-	28,044	63,343
Deferred revenue . . . . .	3,317,000	-	-
Accrued interest payable . . . . .	30,090	-	-
Claims payable . . . . .	109,303	-	-
Long-term liabilities:			
Due within one year . . . . .	459,502	-	-
Due in more than one year . . . . .	9,963,317	-	-
Total liabilities . . . . .	15,269,630	28,044	63,443
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	5,169,968	150,961	143,227
Restricted for:			
Capital projects . . . . .	260,786	-	-
Debt service. . . . .	1,072,976	-	-
State funded programs. . . . .	3,908	1,898	2,475
Federally funded programs. . . . .	40,397	-	37,701
Student activities. . . . .	39,161	-	-
Other purposes . . . . .	90,776	-	-
Unrestricted (deficit) . . . . .	(1,484,662)	135,654	184,712
Total net assets . . . . .	\$ 5,193,310	\$ 288,513	\$ 368,115

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 4,991,940	\$ 936,694	\$ 281,981	\$ -	\$ (3,773,265)
Special . . . . .	1,232,992	-	368,704	-	(864,288)
Vocational . . . . .	347,938	-	-	-	(347,938)
Other . . . . .	1,288,485	-	-	-	(1,288,485)
Support services:					
Pupil . . . . .	476,375	-	14,638	-	(461,737)
Instructional staff . . . . .	626,118	-	153,481	16,512	(456,125)
Board of education . . . . .	53,049	-	-	-	(53,049)
Administration . . . . .	776,487	55,731	24,180	-	(696,576)
Fiscal . . . . .	370,960	-	2,132	-	(368,828)
Operations and maintenance . . . . .	1,423,680	30,478	-	-	(1,393,202)
Pupil transportation . . . . .	609,581	-	-	-	(609,581)
Central . . . . .	27,081	-	5,000	-	(22,081)
Operation of non-instructional services:					
Food service operations . . . . .	394,833	203,483	159,713	-	(31,637)
Other non-instructional services . . . . .	1,000	-	-	-	(1,000)
Extracurricular activities . . . . .	289,639	112,189	-	-	(177,450)
Interest and fiscal charges . . . . .	396,838	-	-	-	(396,838)
Total governmental activities . . . . .	13,306,996	1,338,575	1,009,829	16,512	(10,942,080)
<b>Component Units:</b>					
GOAL Digital Academy . . . . .	627,058	-	162,164	-	-
Tommorrow Center . . . . .	590,029	3,500	188,472	-	-
Total component units . . . . .	1,217,087	3,500	350,636	-	-
Totals . . . . .	\$ 14,524,083	\$ 1,342,075	\$ 1,360,465	\$ 16,512	(10,942,080)
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					2,757,847
Debt service . . . . .					779,148
Capital projects . . . . .					83,493
School district income tax . . . . .					902,774
Grants and entitlements not restricted to specific programs . . . . .					6,140,694
Investment earnings . . . . .					99,946
Miscellaneous . . . . .					316,612
Total general revenues . . . . .					11,080,514
<b>Special item:</b>					
Gain on sale of building . . . . .					123,406
Total general revenues and special item . . . . .					11,203,920
Change in net assets . . . . .					261,840
<b>Net assets at beginning of year (restated) . . . . .</b>					4,931,470
<b>Net assets at end of year . . . . .</b>					\$ 5,193,310

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 719,808	\$ 864,977	\$ 403,374	\$ 1,988,159
Receivables:				
Taxes . . . . .	4,014,528	934,249	102,322	5,051,099
Intergovernmental . . . . .	-	-	65,332	65,332
Interfund receivable . . . . .	142,431	-	-	142,431
Due from component units . . . . .	91,387	-	-	91,387
Due from other funds . . . . .	16,814	-	-	16,814
Prepayments . . . . .	12,473	-	-	12,473
Materials and supplies inventory . . . . .	-	-	7,188	7,188
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	90,776	-	-	90,776
Total assets . . . . .	<u>\$ 5,088,217</u>	<u>\$ 1,799,226</u>	<u>\$ 578,216</u>	<u>\$ 7,465,659</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 76,396	\$ -	\$ 3,203	\$ 79,599
Accrued wages and benefits . . . . .	938,052	-	42,478	980,530
Compensated absences payable . . . . .	81,262	-	1,556	82,818
Pension obligation payable. . . . .	226,554	-	12,060	238,614
Intergovernmental payable. . . . .	84,915	631	6,129	91,675
Due to other funds . . . . .	-	-	16,814	16,814
Deferred revenue. . . . .	3,376,804	848,338	93,931	4,319,073
Total liabilities . . . . .	<u>4,783,983</u>	<u>848,969</u>	<u>176,171</u>	<u>5,809,123</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	47,096	-	-	47,096
Reserved for materials and supplies inventory. . . . .	-	-	7,188	7,188
Reserved for prepayments . . . . .	12,473	-	-	12,473
Reserved for property tax unavailable for appropriation . . . . .	249,113	76,836	7,916	333,865
Reserved for textbooks. . . . .	84,120	-	-	84,120
Reserved for school bus purchases . . . . .	6,656	-	-	6,656
Reserved for debt service. . . . .	-	873,421	-	873,421
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(95,224)	-	-	(95,224)
Special revenue funds. . . . .	-	-	151,804	151,804
Capital projects funds. . . . .	-	-	235,137	235,137
Total fund balances . . . . .	<u>304,234</u>	<u>950,257</u>	<u>402,045</u>	<u>1,656,536</u>
Total liabilities and fund balances . . . . .	<u>\$ 5,088,217</u>	<u>\$ 1,799,226</u>	<u>\$ 578,216</u>	<u>\$ 7,465,659</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

<b>Total governmental fund balances</b>		\$ 1,656,536
<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.		12,983,019
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 1,001,459	
Intergovernmental revenue	614	
Total		1,002,073
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		(220,893)
Unamortized premiums on bond issuance is not recognized in the funds.		(505,525)
Unamortized bond issuance costs are not recognized in the funds.		142,666
Deferred charges are not recognized in the funds.		362,859
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(30,090)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(732,152)	
General obligation bonds payable	(9,439,452)	
Capital lease	(25,731)	
Total		(10,197,335)
<b>Net assets of governmental activities</b>		<b>\$ 5,193,310</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,501,460	\$ 760,179	\$ 80,413	\$ 4,342,052
Tuition . . . . .	905,951	-	-	905,951
Charges for services . . . . .	-	-	203,483	203,483
Earnings on investments . . . . .	96,746	-	3,168	99,914
Extracurricular . . . . .	-	-	156,060	156,060
Classroom materials and fees . . . . .	-	-	30,743	30,743
Rental income . . . . .	30,478	-	-	30,478
Other local revenues . . . . .	316,612	-	30,059	346,671
Intergovernmental - State . . . . .	6,042,440	88,813	223,824	6,355,077
Intergovernmental - Federal . . . . .	-	-	800,112	800,112
Total revenue . . . . .	<u>10,893,687</u>	<u>848,992</u>	<u>1,527,862</u>	<u>13,270,541</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,180,992	-	280,887	4,461,879
Special . . . . .	917,360	-	315,396	1,232,756
Vocational . . . . .	331,523	-	2,390	333,913
Other . . . . .	1,288,485	-	-	1,288,485
Support services:				
Pupil . . . . .	448,172	-	12,106	460,278
Instructional staff . . . . .	489,971	-	153,966	643,937
Board of education . . . . .	53,049	-	-	53,049
Administration . . . . .	657,682	-	63,134	720,816
Fiscal . . . . .	349,575	19,410	2,053	371,038
Operations and maintenance . . . . .	1,355,335	-	-	1,355,335
Pupil transportation . . . . .	564,476	-	-	564,476
Central . . . . .	22,081	-	5,000	27,081
Operation of non-instructional services:				
Food service operations . . . . .	-	-	374,610	374,610
Other non-instructional services . . . . .	-	-	1,000	1,000
Extracurricular activities . . . . .	172,112	-	97,187	269,299
Facilities acquisition and construction . . . . .	-	-	22,186	22,186
Debt service:				
Principal retirement . . . . .	5,309	2,385,000	-	2,390,309
Interest and fiscal charges . . . . .	1,780	356,782	-	358,562
Bond issuance costs . . . . .	-	147,439	-	147,439
Total expenditures . . . . .	<u>10,837,902</u>	<u>2,908,631</u>	<u>1,329,915</u>	<u>15,076,448</u>
Excess of revenues over (under) expenditures . . . . .	<u>55,785</u>	<u>(2,059,639)</u>	<u>197,947</u>	<u>(1,805,907)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	893	893
Transfers (out) . . . . .	-	-	(893)	(893)
Issuance of bonds . . . . .	-	6,730,000	-	6,730,000
Premium on sale of bonds . . . . .	-	522,438	-	522,438
Payment to refunded bond escrow agent . . . . .	-	(5,104,999)	-	(5,104,999)
Total other financing sources (uses) . . . . .	<u>-</u>	<u>2,147,439</u>	<u>-</u>	<u>2,147,439</u>
<b>Special item:</b>				
Sale of building . . . . .	-	-	123,406	123,406
Net change in fund balances . . . . .	55,785	87,800	321,353	464,938
<b>Fund balances at beginning of year . . . . .</b>	<u>248,449</u>	<u>862,457</u>	<u>80,692</u>	<u>1,191,598</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 304,234</u>	<u>\$ 950,257</u>	<u>\$ 402,045</u>	<u>\$ 1,656,536</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**Net change in fund balances - total governmental funds** \$ 464,938

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

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

Capital asset additions	\$ 11,000	
Current year depreciation	<u>(386,977)</u>	
Total		(375,977)

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

Delinquent property taxes	181,210	
Intergovernmental	<u>(6,353)</u>	
Total		174,857

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 2,390,309

Payments to refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets. 4,730,000

The issuance of bonds are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (6,730,000)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:

Increase in accrued interest payable	(39)	
Accreted interest on "capital appreciation" bonds	(38,237)	
Bond issuance costs incurred in the fiscal year	147,439	
Amortization of bond issuance costs	(4,773)	
Premium on bonds issued in the fiscal year	(522,438)	
Amortization on bond premiums	16,913	
Deferred charge on refunding incurred in fiscal year	374,999	
Amortization of deferred charge on refunding	<u>(12,140)</u>	
Total		(38,276)

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (82,890)

Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. (271,121)

**Change in net assets of governmental activities** \$ 261,840

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,430,623	\$ 3,430,623	\$ 3,516,309	\$ 85,686
Tuition. . . . .	883,874	883,874	905,951	22,077
Earnings on investments. . . . .	94,388	94,388	96,746	2,358
Rentals. . . . .	29,735	29,735	30,478	743
Other local revenues . . . . .	305,952	305,952	313,594	7,642
Intergovernmental - State . . . . .	5,895,195	5,895,195	6,042,440	147,245
Total revenue . . . . .	<u>10,639,767</u>	<u>10,639,767</u>	<u>10,905,518</u>	<u>265,751</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,968,964	4,045,343	4,049,776	(4,433)
Special. . . . .	934,009	951,983	895,796	56,187
Vocational. . . . .	320,752	326,924	328,472	(1,548)
Other. . . . .	1,295,078	1,320,000	1,271,465	48,535
Support services:				
Pupil. . . . .	451,136	459,818	454,502	5,316
Instructional staff . . . . .	573,576	584,614	541,547	43,067
Board of education . . . . .	59,575	60,721	54,345	6,376
Administration. . . . .	711,414	725,104	679,895	45,209
Fiscal . . . . .	371,585	378,736	353,216	25,520
Operations and maintenance. . . . .	1,317,269	1,342,618	1,363,078	(20,460)
Pupil transportation . . . . .	467,174	476,164	535,288	(59,124)
Central. . . . .	23,547	24,000	22,081	1,919
Extracurricular activities. . . . .	175,886	179,271	171,787	7,484
Total expenditures . . . . .	<u>10,669,965</u>	<u>10,875,296</u>	<u>10,721,248</u>	<u>154,048</u>
Excess of revenues over (under) expenditures. . . . .	<u>(30,198)</u>	<u>(235,529)</u>	<u>184,270</u>	<u>419,799</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	7,500	7,500	3,018	(4,482)
Advances (out) . . . . .	(142,431)	(142,431)	(142,431)	-
Total other financing sources (uses). . . . .	<u>(134,931)</u>	<u>(134,931)</u>	<u>(139,413)</u>	<u>(4,482)</u>
Net change in fund balance . . . . .	(165,129)	(370,460)	44,857	415,317
<b>Fund balance at beginning of year. . . . .</b>	637,552	637,552	637,552	-
<b>Prior year encumbrances appropriated . . . . .</b>	96,438	96,438	96,438	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 568,861</u>	<u>\$ 363,530</u>	<u>\$ 778,847</u>	<u>\$ 415,317</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Assets:</b>	
Current:	
Equity in pooled cash and cash equivalents. . . . .	\$ 30,841
	<hr/>
Total assets . . . . .	30,841
	<hr/>
<b>Liabilities:</b>	
Current:	
Claims payable . . . . .	109,303
Interfund loan payable. . . . .	142,431
	<hr/>
Total liabilities . . . . .	251,734
	<hr/>
<b>Net assets:</b>	
Unrestricted/(deficit) . . . . .	(220,893)
	<hr/>
Total net assets . . . . .	<u>\$ (220,893)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Operating revenues:</b>	
Sales/charges for services . . . . .	\$ 1,210,729
Total operating revenues. . . . .	<u>1,210,729</u>
<b>Operating expenses:</b>	
Purchased services. . . . .	208,614
Claims . . . . .	<u>1,273,268</u>
Total operating expenses. . . . .	<u>1,481,882</u>
Operating loss . . . . .	<u>(271,153)</u>
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	<u>32</u>
Total nonoperating revenues. . . . .	<u>32</u>
Change in net assets . . . . .	(271,121)
<b>Net assets at beginning of year. . . . .</b>	<u>50,228</u>
<b>Net assets (deficit) at end of year . . . . .</b>	<u><u>\$ (220,893)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/charges for services . . . . .	\$ 1,210,729
Cash payments for purchased services. . . . .	(208,614)
Cash payments for claims . . . . .	<u>(1,291,648)</u>
Net cash used in operating activities . . . . .	<u>(289,533)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from interfund loans . . . . .	<u>142,431</u>
Net cash provided by noncapital financing activities. . . . .	<u>142,431</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>32</u>
Net cash provided by investing activities . . . . .	<u>32</u>
Net decrease in cash and cash equivalents . . . . .	(147,070)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>177,911</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$ 30,841</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (271,153)
Changes in assets and liabilities:	
Decrease in claims payable . . . . .	<u>(18,380)</u>
Net cash used in operating activities . . . . .	<u><u>\$ (289,533)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2006

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 19,119
Total assets . . . . .	\$ 19,119
<b>Liabilities:</b>	
Accounts payable . . . . .	\$ 65
Due to students . . . . .	19,054
Total liabilities . . . . .	\$ 19,119

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

The Mount Gilead Exempted Village School District (the "District") is located in Morrow County, including all of the Village of Mount Gilead, Ohio, and portions of surrounding townships. The District serves an area of approximately 68 square miles.

The District was established in 1873 through the consolidation of existing land areas and school districts, and in 1960 the Edison School District also became part of the Mount Gilead Exempted Village School District. The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District ranks as the 405<sup>th</sup> largest by enrollment among the 615 public school districts in the state, and the 2<sup>nd</sup> largest in Morrow County. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 41 non-certified and 101 certified employees to provide services to approximately 1,367 students in grades K through 12 and various community groups.

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

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has two component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

*DISCRETELY PRESENTED COMPONENT UNITS*

The GOAL Digital Academy Community School (GDA)

The GDA is a legally separate, conversion community school, served by a Board of Directors. The GDA provides students within the District and throughout Ohio with curriculum and instruction via distance learning technology. The Board of Directors consists of the District's Superintendent, Treasurer, Special Education Director, Technology Director, and two additional Board members appointed by the District. The District is the sponsoring District of the GDA under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the GDA and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the GDA, the GDA's purpose of servicing the students with the District, and the relationship between the Board of the Education of the District and the Board of Directors of the GDA, the GDA is reflected as a component unit of the District. It is reported separately to emphasize that it is legally separate from the District. The GDA paid the District \$427,576 for contract services provided by the District during fiscal year 2006. Separately issued financial statements for the GDA can be obtained from the Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

The Tomorrow Center Community School (Center)

The Center is a legally separate, conversion community school, serviced by a Board of Directors. The Center focuses on serving students at risk of or already in therapeutic residential placement, and provides an alternative to the traditional educational setting. The Center was organized under Ohio Law Section 3314, and the District is the sponsor. The Center was founded utilizing existing programs within the existing structure of the District. The employees of the Center remain part of the collective bargaining unit of the District. Based on the significant services provided by the District to the Center and the Center's purpose of serving the students within the District, the Center is reflected as a component unit of the District. The Center is reported separately to emphasize that it is legally separate from the District. The Center paid the District \$535,354 for contract services provided by the District during fiscal year 2006. Separately issued financial statements for the Center can be obtained from the Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, P.O. Box 239, Mt. Gilead, Ohio 43338.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component units can be found in Note 18 and Note 19 to these basic financial statements.

*JOINTLY GOVERNED ORGANIZATIONS*

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, P.O. Box 239, Marion, Ohio 43302.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

Tri Rivers Career Center

The Tri Rivers Career Center (the "Career Center") is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board consisting of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The Career Center possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

*RELATED ORGANIZATION*

Mount Gilead Public Library

The Mount Gilead Public Library (the "Library") is a related organization to the District. The School Board members are responsible for appointing the trustees of the Public Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and has issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The Library may issue debt and determines its own budget. Library general obligation debt currently serviced by the District is described in Note 11.

*INSURANCE PURCHASING POOLS*

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool. See Note 12 for further information on the Plan.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

**PROPRIETARY FUND**

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

**FIDUCIARY FUNDS**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

**E. Budgets**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures at level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund. Although the legal level of budgetary control was established at the fund level for the general fund, the District has elected to present the budgetary statement comparison at the fund and function level of expenditures. Any budgetary modification at this level may only be made by resolution of the Board of Education.

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

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

**F. Cash and Investments**

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$96,746, which includes \$54,782 assigned from other funds.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2006, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 20 years
Buildings and improvements	20 - 70 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from negative cash balances in certain funds (see Note 3.C and Note 5.C) are classified as "due to/due from other funds." Receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payables". These amounts are eliminated in the governmental activities column on the statement of net asset



**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

**J. Compensated Absences**

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

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

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employee's salaries are paid.

**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 internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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. Bonds are recognized as a liability on the fund financial statements when due.

**L. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

**M. Fund Balance Reserves**

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

**N. Net Assets**

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

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

**O. Prepayments**

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

**P. Parochial Schools**

Mount Gilead Christian School operates within the District's boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and fiduciary responsibility of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

**Q. Estimates**

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

**R. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and school bus purchase reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

**S. Interfund Activity**

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

**T. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss**

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

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

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 11.A.

**U. 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. The District had no extraordinary items during fiscal year 2006. The District did have a special item to report in fiscal year 2006 related to the sale of the building previously used as the administration building which was closed during fiscal year 2004. The book value of the building at the time of sale was \$0, the receipts resulting from the sale totaled \$123,406 for a gain of \$123,406. The proceeds received from the sale are reported in the fund financial statements while the gain on the sale is reported in the statement of activities.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

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

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

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

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

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

**B. Restatement of Net Assets**

The District has presented a correction to capital assets due to errors and omissions as previously reported which affects net assets as follows:

	Total
Net assets, June 30, 2005	\$ 4,877,081
Restatement of capital assets	54,389
Restated net assets, June 30, 2005	\$ 4,931,470

**C. Deficit Fund Balances**

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

	Deficit
<u>Nonmajor Funds</u>	
Food Service	\$ 9,030
Self-Insurance	220,893
Alternative Recovery School	4,100
Poverty Aid	214
Title VI	2,521
Title IV	709

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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The Food Service, Self-Insurance, Poverty Aid and Title IV funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The Alternative Recovery School and Title VI grant funds had cash basis deficits at year-end contrary to Ohio Revised Code Section 5705.10. An interfund liability has been recorded to cover these negative cash balances (see Note 5.C).

**D. Noncompliance**

The District had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, these amounts have been reported as fund liabilities in the respective funds (see Note 5.C.).

<u>Nonmajor Governmental Funds</u>	<u>Amount</u>
Alternative Reconvry School	\$ 3,809
Drug-Free Schools Grants	9,133
Title VI-B	1,404
Title VI	2,468

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the District had \$2,325 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had a cash balance with the Ohio Mid-Eastern Regional Education Service Agency Self-funded Insurance Program (the "Program") of (\$111,590). This money is held by the Program's fiscal agent in a pooled account which is representative of numerous entities and therefore, cannot be classify by risk. Due to the negative cash balance, the District recorded an interfund loan from the general fund, described in Note 5.B. The remaining balance is part of the internal cash pool and is reported on the financial statements as "Cash with Cash Equivalents".

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

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

**C. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$2,124,782. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$2,392,174 of the District's bank balance of \$2,592,174 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

**D. Investments**

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 1,788	\$ 1,788

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,788	100.00

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

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

**E. Reconciliation of Cash and Investment to the Statement of Net Assets**

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,124,782
Investments	1,788
Cash on hand	2,325
Total	\$ 2,128,895
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,109,776
Agency fund	19,119
Total	\$ 2,128,895

**NOTE 5 - INTERFUND TRANSACTIONS**

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

Transfers to Nonmajor Governmental funds from:

Nonmajor governmental funds	\$ 893
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Transfers are used to move unrestricted revenues of the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers from nonmajor governmental funds were made to close out student activities into the principle's funds.

Interfund transfers between governmental funds have been eliminated for reporting on the government-wide statement of activities.

- B.** Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Fund	\$ 142,431

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

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



**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

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

C. At June 30, 2006, certain funds had negative cash balances. These fund overdrafts of the internal investment pool have been reported as fund liabilities of the respective funds.

<u>Major Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 16,814	\$ -
<u>Nonmajor Governmental Funds</u>		
Alternative Recovery School	-	3,809
Drug-free schools grant	-	9,133
Title VI - B	-	1,404
Title VI	-	2,468
Total	<u>\$ 16,814</u>	<u>\$ 16,814</u>

Amounts due to/from other funds between governmental funds have been eliminated for reporting on the government-wide statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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

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

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

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

The amount available as an advance at June 30, 2006 was \$249,113 in the general fund, \$7,916 in the Permanent Improvement capital projects fund, and \$76,836 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$310,586 in the general fund, \$10,884 in the Permanent Improvement capital projects fund and \$99,407 in the debt service fund.

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

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 110,784,790	88.16	\$ 130,716,290	89.20
Public utility personal	7,068,260	5.63	6,664,910	4.55
Tangible personal property	<u>7,804,680</u>	<u>6.21</u>	<u>9,165,090</u>	<u>6.25</u>
Total	<u>\$ 125,657,730</u>	<u>100.00</u>	<u>\$ 146,546,290</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 42.80		\$ 42.80	
Permanent Improvement	0.75		0.75	
Debt Service	5.50		5.50	

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 7 - SCHOOL DISTRICT INCOME TAX**

During 2003, voters of the District passed a renewal of the 3/4% income tax, effective for five years. The tax is collected by the State of Ohio and remitted to the District quarterly. Total income tax revenue for fiscal 2006, credited to the general fund, was \$902,774.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, intergovernmental grants and entitlements, and amounts due from component units. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes	\$ 5,051,099
Intergovernmental	65,332
Due from component units	<u>91,387</u>
Total	<u>\$ 5,207,818</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 9 - CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to errors and omissions previously reported:

	<u>Balance</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u>
	<u>06/30/05</u>		<u>06/30/05</u>
<b>Governmental Activities</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 26,121	\$ -	\$ 26,121
Total capital assets, not being depreciated	<u>26,121</u>	<u>-</u>	<u>26,121</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	349,214	-	349,214
Buildings and improvements	14,439,301	-	14,439,301
Furniture and equipment	1,452,318	(48,904)	1,403,414
Vehicles	<u>782,323</u>	<u>-</u>	<u>782,323</u>
Total capital assets, being depreciated	<u>17,023,156</u>	<u>(48,904)</u>	<u>16,974,252</u>
<i>Less: accumulated depreciation</i>	<u>(3,744,670)</u>	<u>103,293</u>	<u>(3,641,377)</u>
Governmental activities capital assets, net	<u>\$ 13,304,607</u>	<u>\$ 54,389</u>	<u>\$ 13,358,996</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CAPITAL ASSETS - (Continued)**

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

	Restated Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 26,121	\$ -	\$ -	\$ 26,121
Total capital assets, not being depreciated	<u>26,121</u>	<u>-</u>	<u>-</u>	<u>26,121</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	349,214	-	-	349,214
Buildings and improvements	14,439,301	-	(49,476)	14,389,825
Furniture and equipment	1,403,414	11,000	-	1,414,414
Vehicles	<u>782,323</u>	<u>-</u>	<u>-</u>	<u>782,323</u>
Total capital assets, being depreciated	<u>16,974,252</u>	<u>11,000</u>	<u>(49,476)</u>	<u>16,935,776</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(219,231)	(12,379)	-	(231,610)
Buildings and improvements	(2,277,205)	(208,774)	49,476	(2,436,503)
Furniture and equipment	(611,511)	(107,463)	-	(718,974)
Vehicles	<u>(533,430)</u>	<u>(58,361)</u>	<u>-</u>	<u>(591,791)</u>
Total accumulated depreciation	<u>(3,641,377)</u>	<u>(386,977)</u>	<u>49,476</u>	<u>(3,978,878)</u>
Governmental activities capital assets, net	<u>\$ 13,358,996</u>	<u>\$ (375,977)</u>	<u>\$ -</u>	<u>\$ 12,983,019</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 258,075
Special	2,422
Vocational	9,053
<u>Support Services:</u>	
Pupil	1,616
Instructional staff	6,726
Administration	4,895
Operations and Maintenance	10,510
Pupil Transportation	61,236
Extracurricular Activities	20,340
Food Service Operation	<u>12,104</u>
Total depreciation expense	<u>\$ 386,977</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During a prior fiscal year, the District entered into a capitalized lease for copier equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as regular instruction function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$31,040. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$15,520, leaving a current book value of \$15,520. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$5,309 by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Copiers</u>
2007	\$ 7,088
2008	7,088
2009	7,089
2010	<u>7,089</u>
Total minimum lease payments	28,354
Less: amount representing interest	<u>(2,623)</u>
Total	<u>\$ 25,731</u>

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

**NOTE 11 - LONG-TERM OBLIGATIONS**

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

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding 06/30/06	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds:					
Series 1998, library various	\$ 1,135,000	\$ -	\$ (60,000)	\$ 1,075,000	\$ 60,000
Series 2000, improvement, 4.82%	6,245,000	-	(4,955,000)	1,290,000	235,000
Series 2000, capital appreciation bonds	9,986	-	-	9,986	-
Series 2000, accreted interest	396,229	12,205	-	408,434	-
Series 2005, refunding bonds	-	6,405,000	(100,000)	6,305,000	35,000
Series 2005, capital appreciation bonds	-	325,000	-	325,000	-
Series 2005, accreted interest	-	26,032	-	26,032	-
Total G.O. bonds	<u>7,786,215</u>	<u>6,768,237</u>	<u>(5,115,000)</u>	<u>9,439,452</u>	<u>330,000</u>
Notes payable:					
Bond anticipation note	<u>2,000,000</u>	-	<u>(2,000,000)</u>	-	-
Total notes payable	<u>2,000,000</u>	-	<u>(2,000,000)</u>	-	-
Other obligations:					
Capital lease obligation	31,040	-	(5,309)	25,731	6,059
Compensated absences	<u>662,859</u>	<u>211,222</u>	<u>(59,111)</u>	<u>814,970</u>	<u>123,443</u>
Total other obligations	<u>693,899</u>	<u>211,222</u>	<u>(64,420)</u>	<u>840,701</u>	<u>129,502</u>
Total long-term obligations, governmental activities	<u>\$ 10,480,114</u>	<u>\$ 6,979,459</u>	<u>\$ (7,179,420)</u>	<u>\$ 10,280,153</u>	<u>\$ 459,502</u>
Unamortized premium on refunding bonds				505,525	
Deferred charges				<u>(362,859)</u>	
Total long-term obligations				<u>\$ 10,422,819</u>	

Library Bonds Series 1998: The library bonds outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted as long-term liabilities. Payments of principal and interest relating to these notes are recorded as expenditures in the debt service fund. The source of payment is derived from a .80 mill bonded debt (library) tax levy.

School Facilities Improvement Bonds Series 2000: On September 26, 2000, the District issued \$6,999,986 in general obligation bonds (Series 2000, School Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC). These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted as long-term liability. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 4.70 (average) mill bonded debt tax levy.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

During fiscal year 2006, a \$225,000 principal payment was made and the callable portion of the bonds, \$4,730,000, were advance refunded. The non-callable portion of the current interest bonds, \$1,290,000 remained as a liability at June 30, 2006. The capital appreciation bonds were not refunded. The capital appreciation bonds mature December 1, 2014 and 2015 (effective interest 33.404% and 33.408%, respectively), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported at June 30, 2006 was \$9,986. Total accreted interest of \$408,434 has been included at June 30, 2006.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2010.

*Refunding General Obligation Bonds Series 2005:* On August 16, 2005, the District issued general obligation bonds (Series 2005 Refunding Bonds) to advance refund the callable portion of the Series 2000 Current Interest General Obligation Bonds (principal \$4,730,000; interest rate 5.0-5.375%). The issuance proceeds of \$5,104,999 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The proceeds of \$2,000,000 repaid bond anticipation notes which matured.

The refunding issue is comprised of both current interest bonds, par value \$6,305,000 and capital appreciation bonds, par value \$605,000. The average interest rate on the current interest bonds is 6.0%. The capital appreciation bonds mature December 1, 2013 (effective interest 6.203%) and December 1, 2016 (effective interest rate of 7.0%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$325,000. Total accreted interest of \$26,032 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$374,999. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 23 years by \$365,681 and resulted in an economic gain of \$284,276.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

Year Ending June 30	Library Bonds - Series 1998		
	Principal	Interest	Total
2007	\$ 60,000	\$ 50,305	110,305
2008	65,000	47,648	112,648
2009	65,000	44,836	109,836
2010	70,000	41,883	111,883
2011	75,000	38,486	113,486
2012 - 2016	425,000	133,033	558,033
2017 - 2020	315,000	23,885	338,885
Total	<u>\$ 1,075,000</u>	<u>\$ 380,076</u>	<u>\$ 1,455,076</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

Year Ending June 30	Current Interest Bonds - Series 2000			Capital Appreciation Bonds - 2000		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 235,000	\$ 56,637	291,637	\$ -	\$ -	-
2008	245,000	45,536	290,536	-	-	-
2009	255,000	33,848	288,848	-	-	-
2010	270,000	20,767	290,767	-	-	-
2011	285,000	6,640	291,640	-	-	-
2012 - 2016	-	-	-	9,986	670,014	680,000
Total	<u>\$ 1,290,000</u>	<u>\$ 163,428</u>	<u>\$ 1,453,428</u>	<u>\$ 9,986</u>	<u>\$ 670,014</u>	<u>\$ 680,000</u>

Year Ending June 30	Current Interest Bonds - Series 2005			Capital Appreciation Bonds - 2005		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 35,000	\$ 270,831	305,831	\$ -	\$ -	-
2008	35,000	269,781	304,781	-	-	-
2009	40,000	268,606	308,606	-	-	-
2010	60,000	266,981	326,981	-	-	-
2011	75,000	264,787	339,787	-	-	-
2012 - 2016	1,095,000	1,135,498	2,230,498	175,000	285,000	460,000
2017 - 2021	2,025,000	862,488	2,887,488	150,000	320,000	470,000
2022 - 2026	2,515,000	307,189	2,822,189	-	-	-
2027 - 2029	425,000	26,917	451,917	-	-	-
Total	<u>\$ 6,305,000</u>	<u>\$ 3,673,078</u>	<u>\$ 9,978,078</u>	<u>\$ 325,000</u>	<u>\$ 605,000</u>	<u>\$ 930,000</u>

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$5,134,437 (including available funds of \$950,257) and an unvoted debt margin of \$146,546.

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006 the District contracted with Indiana Insurance for general liability insurance and property insurance.

Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate. In addition, a \$2,000,000 per occurrence and aggregate policy was also underwritten by Indiana Insurance.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - RISK MANAGEMENT - (Continued)**

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverages insure up to a blanket limit of \$28,085,616 with a \$1,000 deductible, commercial crime covers up to \$10,000.

Settled claims have not exceeded this commercial coverage nor has insurance coverage been significantly reduced in any of the past three fiscal years.

**B. Medical/Surgical, Dental and Vision Insurance**

Medical/surgical, dental and vision insurance is offered to employees through a self-insurance internal service fund. The District has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$50,000 per covered person. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Self-Funded Plans, Inc. of Cleveland.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The District's independent third-party administrator has actuarially determined that \$109,303 is a good and sufficient provision for incurred but not reported claims as of June 30, 2006. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$109,303 reported in the internal service fund at June 30, 2006, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 127,683	\$ 1,273,268	\$ (1,291,648)	\$ 109,303
2005	310,280	1,634,418	(1,817,015)	127,683

**C. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - RISK MANAGEMENT - (Continued)**

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$128,282, \$105,252, and \$82,152, respectively; 44% has been contributed for fiscal year 2006 and 100% has been paid for fiscal years 2005 and 2004. \$72,358 is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS - (Continued)**

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$687,109, \$630,319, and \$639,816, respectively; 83% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$114,656 is recorded as a liability in the respective funds. Combined Plans for fiscal 2006 were \$283 made by the District and \$13,359 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$52,855 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$67,926 to fund health care benefits, including the surcharge.

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

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 44,857
Net adjustment for revenue accruals	(11,831)
Net adjustment for expenditure accruals	(165,205)
Net adjustment for other sources/uses	139,413
Adjustment for encumbrances	<u>48,551</u>
GAAP basis	<u>\$ 55,785</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**NOTE 17 - STATUTORY RESERVES**

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

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**NOTE 17 - STATUTORY RESERVES - (Continued)**

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ 27,960	\$ (9,774,131)
Current year set-aside requirement	200,795	200,795
Qualifying disbursements	<u>(144,635)</u>	<u>(28,269)</u>
Total	<u>\$ 84,120</u>	<u>\$ (9,601,605)</u>
Cash balance carried forward to FY 2007	<u>\$ 84,120</u>	<u>\$ (9,601,605)</u>

Qualifying expenditures for capital acquisition exceeded the required set-aside amount and may be carried forward to future years.

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

Amount restricted for textbooks	\$ 84,120
Amount restricted for school bus purchases	<u>6,656</u>
Total restricted assets	<u>\$ 90,776</u>

**NOTE 18 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL**

The GOAL Digital Academy Community School (the "GDA") is a discretely presented component unit of the Mt. Gilead Exempted Village School District (the "District"). The District is the Sponsor of the GDA. The GDA issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

**A. Significant Accounting Policies**

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

**Basis of Accounting** - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses in the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 18 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)**

***Measurement Focus and Basis of Accounting*** - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

***Budgetary Process*** - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the GDA and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

***Cash*** - All monies received by the GDA are deposited in a demand deposit account.

***Capital Assets and Depreciation*** - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The GDA maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The GDA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over five to fifteen years.

***Net Assets*** - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

***Intergovernmental Revenue*** - The GDA currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 18 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)**

*Estimates* - The preparation of financial statements in conformity with GAAP 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.

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all GDA deposits was \$154,603. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$100,000 of the School’s bank balance of \$195,437 was covered by Federal Deposit Insurance Corporation, while \$95,437 was exposed to custodial risk as discussed below.

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

**C. Capital Assets**

A summary of capital assets at June 30, 2006 follows:

	<u>Balance</u> <u>6/30/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/06</u>
Furniture and equipment	\$ 166,466	\$ 58,140	\$ (16,594)	\$ 208,012
Less: accumulated depreciation	<u>(39,379)</u>	<u>(23,200)</u>	<u>5,528</u>	<u>(57,051)</u>
Net fixed assets	<u>\$ 127,087</u>	<u>\$ 34,940</u>	<u>\$ (11,066)</u>	<u>\$ 150,961</u>

**D. Risk Management**

The GDA 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. On February 1, 2003, the GDA was named as an additional insured party on Mt. Gilead Exempted Village School District’s, the Sponsor, insurance policy with Indiana Insurance for general liability insurance and property insurance. The entire risk of loss; less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both GDA and the Sponsor. Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

Settled claims have not exceeded commercial insurance coverage for fiscal year 2006 and 2005 and there has been no reduction in insurance coverage from the previous year.



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

**NOTE 18 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)**

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverage insures up to a blanket limit of \$28,647,325 with a \$2,500 deductible, commercial crime covers up to \$25,000. The limits and deductibles stated above are in aggregate for both GDA and the sponsor.

**E. Contingencies**

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

**State Foundation Funding** - The Ohio Department of Education conducts review of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Center does not have any significant adjustments to state funding for fiscal year 2007, as a result of the reviews which have been completed.

**Litigation** - A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Plain Local Academy of Technology is not presently determinable.

**F. Service Contract**

The Mount Gilead Exempted Village School District and GDA entered into a service contract agreement. This agreement states that GDA will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for GDA pursuant to Ohio Revised Code Section 3317.11.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**NOTE 18 - GOAL DIGITAL ACADEMY COMMUNITY SCHOOL - (Continued)**

Mount Gilead Exempted Village School District's Board of Education agreed to provide the following services for GDA:

1. Instructional services for all grade levels.
2. Collaboration for staff development programs for certified and non-certified staff.
3. Planning and consultative services for curriculum development.
4. Psychological services as needed for re-evaluations and initial multi-factored evaluations.
5. Fiscal services including payroll, retirement, and insurance.
6. Student services including E.M.I.S., Nursing, Speech, Guidance, and Therapy.
7. Classroom space and administrative services.
8. Custodial services.
9. Supervision/Director services.
10. Technology support.

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both GDA and the Mount Gilead Exempted Village School District.

**G. Related Party Transactions**

The GDA is a component unit of the Sponsor (Mt. Gilead Exempted Village School District). The GDA and the Sponsor entered into a five-year sponsorship agreement on September 4, 2002, whereby terms of the sponsorship agreement were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the GDA's fiscal officer.

In the fiscal year 2006, payments were made by the GDA to the Sponsor totaling \$353,521. These represent payments for reimbursements for services provided by the Sponsor to the GDA. Also, at fiscal year end, the GDA had an outstanding payable to the Sponsor, in the amount of \$28,044, reported in the statement of net assets as "due to primary government".

**NOTE 19 - THE TOMORROW CENTER COMMUNITY SCHOOL**

The Tomorrow Center Community School (the "Center") is a discretely presented component unit of the Mt. Gilead Exempted Village School District (the "District"). The District is the Sponsor of the Center. The GDA issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**NOTE 19 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)**

**A. Significant Accounting Policies**

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

***Basis of Presentation*** - Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses in the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

***Measurement Focus and Basis of Accounting*** - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

***Budgetary Process*** - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the Center and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

***Cash*** - All monies received by the Center are deposited in a demand deposit account.

***Capital Assets and Depreciation*** - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Center maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The Center does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over five to fifteen years.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**NOTE 19 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)**

*Prepayments* - Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

*Net Assets* - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

*Intergovernmental Revenue* - The Center currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, the Electronic Management Information System Grant and the Ohio School Net Professional Development Grant, Title VI, Title V and Drug Free Schools grants. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis.

*Estimates* - The preparation of financial statements in conformity with GAAP 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.

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all Center deposits was \$257,263. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$100,000 of the School's bank balance of \$338,719 was covered by Federal Deposit Insurance Corporation, while \$238,719 was exposed to custodial risk as discussed below.

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

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**NOTE 19 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)**

**C. Capital Assets**

A summary of capital assets at June 30, 2006 follows:

	<u>Balance</u> <u>6/30/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/06</u>
Furniture and equipment	\$ 174,850	\$ 23,159	\$ -	\$ 198,009
Less: accumulated depreciation	<u>(27,530)</u>	<u>(27,252)</u>	<u>-</u>	<u>(54,782)</u>
Net capital assets	<u>\$ 147,320</u>	<u>\$ (4,093)</u>	<u>\$ -</u>	<u>\$ 143,227</u>

**D. Risk Management**

The Center 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. For fiscal year 2006, the Center has obtained liability insurance from Indiana Insurance Company. A summary of the Centers insurance coverage follows:

<u>Coverage</u>	<u>Limits of</u> <u>Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ 0
Annual aggregate	2,000,000	0
Commercial umbrella:		
Each occurrence	1,000,000	0
Annual aggregate	1,000,000	0
Employee benefits liability:		
Each occurrence	1,000,000	3,000
Annual aggregate	3,000,000	3,000
Ohio employer's liability:		
Each occurrence	1,000,000	0
Annual aggregate	2,000,000	0
School leader's errors and omissions:		
Each occurrence	1,000,000	2,500
Annual aggregate	1,000,000	2,500
School law enforcement liability:		
Each occurrence	500,000	2,500
Annual aggregate	500,000	2,500
Property	28,647,325	2,500

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**NOTE 19 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)**

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2005.

**E. Contingencies**

**Grants** - The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2006. Management is unaware of any material pending claims that may affect the fiscal 2007 school year.

**Litigation** - A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Plain Local Center of Technology is not presently determinable.

**State Foundation Funding** - The Ohio Department of Education conducts review of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Center does not have any significant adjustments to state funding for fiscal year 2007, as a result of the reviews which have been completed.

**F. Service Contract**

The Mount Gilead Exempted Village School District and the Center has entered into a service contract agreement. This agreement states that the Center will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for the Center pursuant to Ohio Revised Code Section 3317.11.

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both the Center and the Mount Gilead Exempted Village School District.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

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

**NOTE 19 - THE TOMORROW CENTER COMMUNITY SCHOOL - (Continued)**

**G. Related Party Transaction**

The Center is a component unit of the Sponsor (Mt. Gilead Exempted Village School District). The Center and the Sponsor entered into a 5-year sponsorship agreement on October 30, 2002, whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the Center's fiscal officer.

In fiscal year 2006, payments were made by the Center to the Sponsor totaling \$435,105. These represent payments for reimbursements for services provided by the Sponsor to the Center. Also, at fiscal year end, the Center had an outstanding payable to the Sponsor in the amount of \$63,343.

## **SUPPLEMENTAL DATA**



**MT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
<b>Nutrition Cluster:</b>						
(A) (B) Food Donation	10.550	N/A	\$ -	\$ 16,807	\$ -	\$ 16,807
<b>Total Food Donation</b>			<u>-</u>	<u>16,807</u>	<u>-</u>	<u>16,807</u>
(A) (C) National School Lunch Program	10.555	045534-LLP4-2005	33,729	-	33,729	-
(A) (C) National School Lunch Program	10.555	045534-LLP4-2006	103,900	-	103,900	-
<b>Total National School Lunch Program</b>			<u>137,629</u>	<u>-</u>	<u>137,629</u>	<u>-</u>
<b>Total U.S. Department of Agriculture and Nutrition Cluster</b>			<u>137,629</u>	<u>16,807</u>	<u>137,629</u>	<u>16,807</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
Title I Grants to Local Educational Agencies	84.010	045534-C1S1-2006	220,164		214,938	
<b>Total Title I Grants to Local Educational Agencies</b>			<u>220,164</u>		<u>214,938</u>	
<b>Special Education Cluster:</b>						
Special Education Grants to States	84.027	045534-6BSF-2005	47,154		8,000	
Special Education Grants to States	84.027	045534-6BSF-2006	276,162		277,566	
<b>Total Special Education Grants to States</b>			<u>323,316</u>		<u>285,566</u>	
(E) Safe and Drug-Free Schools and Communities State Grants	84.186	045534-DRS1-2005	(114)		-	
Safe and Drug-Free Schools and Communities State Grants	84.186	045534-DRS1-2006	2,951		12,084	
<b>Total Safe and Drug-Free Schools and Communities State Grants</b>			<u>2,837</u>		<u>12,084</u>	
State Grants for Innovative Programs	84.298	045534-C2S1-2006	4,407		6,875	
<b>Total State Grants for Innovative Programs</b>			<u>4,407</u>		<u>6,875</u>	
Education Technology State Grants	84.318	045534-TJS1-2005	29		-	
Education Technology State Grants	84.318	045534-TJS1-2006	4,004		4,122	
<b>Total Education Technology State Grants</b>			<u>4,033</u>		<u>4,122</u>	
Improving Teacher Quality State Grants	84.367	045534-TRS1-2005	19,594		-	
Improving Teacher Quality State Grants	84.367	045534-TRS1-2006	73,784		73,784	
<b>Total Improving Teacher Quality State Grants</b>			<u>93,378</u>		<u>73,784</u>	
<b>Total U.S. Department of Education</b>			<u>648,135</u>		<u>597,369</u>	
<b>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
Learn and Serve America School and Community Based Programs	94.004	045534-SVSI-2005	4,424		-	
Learn and Serve America School and Community Based Programs	94.004	045534-SVSI-2006	4,323		9,386	
<b>Total Corporation for National and Community Service</b>			<u>8,747</u>		<u>9,386</u>	
<b>Total Federal Financial Assistance</b>			<u>\$ 794,511</u>	<u>\$ 16,807</u>	<u>\$ 744,384</u>	<u>\$ 16,807</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.  
(B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.  
(C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.  
(D) This schedule was prepared on the cash basis of accounting.  
(E) Amount of \$114 transferred to the next grant year based on Ohio Department of Education administrative action.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Education  
Mount Gilead Exempted Village School District  
145 ½ N. Cherry Street  
P.O. Box 239  
Mount Gilead, Ohio 43338

We have audited the financial statements of the governmental activities, each major fund, each component unit, and the aggregate remaining fund information of the Mount Gilead Exempted Village School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Mount Gilead Exempted Village School District's basic financial statements, and have issued our report thereon dated December 22, 2006. As disclosed in Note 3B to the financial statements, the District restated capital assets due to errors and omissions in prior years. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mount Gilead Exempted Village School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Mount Gilead Exempted Village School District, in a separate letter dated December 22, 2006.

Board of Education  
Mount Gilead Exempted Village School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mount Gilead Exempted Village School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as 2006-MGEVSD-001. Also, we noted certain matters that we reported to management of Mount Gilead Exempted Village School District, in a separate letter dated December 22, 2006.

This report is intended solely for the information and use of management and the Board of the Mount Gilead Exempted Village School District, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.  
December 22, 2006



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Federal Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133**

Board of Education  
Mount Gilead Exempted Village School District  
145 ½ N. Cherry Street  
P.O. Box 239  
Mount Gilead, Ohio 43338

Compliance

We have audited the compliance of the Mount Gilead Exempted Village School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2006. As disclosed in Note 3B to the financial statements, the District restated capital assets due to errors and omissions in prior years. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Mount Gilead Exempted Village School District's management. Our responsibility is to express an opinion on the Mount Gilead Exempted Village School District's compliance based on our audit.

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

Board of Education  
Mount Gilead Exempted Village School District

In our opinion, the Mount Gilead Exempted Village School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of the management, the Board of the Mount Gilead Exempted Village School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.  
December 22, 2006

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2006**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Title I Grants to Local Educational; Agencies CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT  
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2006**

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

Finding Number	2006-MGEVSD-001
----------------	-----------------

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be used only for the purposes for which such fund is established.

It was noted during the audit that funds following had negative balances at June 30, 2006:

<u>Nonmajor Governmental Funds</u>	<u>Amount</u>
Alternative Recovery School	\$ 3,809
Drug-Free Schools Grants	9,133
Title VI-B	1,404
Title VI	2,468

The general fund is liable for any deficits in these funds. The deficit fund balances resulted from audit adjustments, due to misposting of receipts. The District is not accurately reflecting its fund balances by recording receipts improperly.

We recommend that District properly record monies only to funds they were intended. If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the general fund with proper Board approval.

*Client Response:* The Treasurer will consult the USAS manual to ensure receipts are recorded to the proper fund.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None







Mary Taylor, CPA  
Auditor of State

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT**  
**MORROW COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**MARCH 13, 2007**