

SHAWNEE LOCAL SCHOOL DISTRICT

ALLEN COUNTY

**AUDITED
BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Shawnee Local School District
3255 Zurmehly Road
Lima, Ohio 45806

We have reviewed the *Independent Auditor's Report* of the Shawnee Local School District, Allen County, prepared by Rea & Associates, 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 Shawnee Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 20, 2007

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**SHAWNEE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Rea & Associates, Inc.

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We're Ready For Your Future

December 5, 2006

The Board of Education
Shawnee Local School District
Lima, Ohio 45806

Independent Auditor's Report

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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.

Ohio Administrative Code § 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shawnee Local School District, Allen County, Ohio, as of June 30, 2006, and the respective changes in modified cash basis financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with the accounting basis Note 2 describes.

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

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shawnee Local School District, Allen County, Ohio's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. 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.

Hea & Associates, Inc.

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Receipts accounted for \$19,380,221 in receipts or 84% of all receipts. Program specific receipts in the form of charges for services and sales, operating grants, and contributions accounted for \$3,817,003 or 16% of total receipts of \$23,197,224.
- The District had \$19,525,254 in expenses related to government activities; of which \$2,845,109 was offset by program specific charges for services and operating grants.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$19,961,312 in receipts and other financing sources and \$17,075,410 in disbursements. The fund balance of the general fund increased from \$1,749,993 in fiscal year 2005 to \$4,635,895 in fiscal year 2006. The permanent improvement fund had \$690,728 in receipts and \$631,748 in disbursements. The fund balance of the permanent improvement fund increased from \$552,431 in fiscal year 2005 to \$611,411 in fiscal year 2006.
- Net assets of Governmental Activities of the District at June 30, 2006 totaled \$5,955,531.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Shawnee Local School District as a whole 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 School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide 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 School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Shawnee Local School District, the general fund and the permanent improvement fund are by far the most significant funds.

The notes to the financial statements are an integral part of the district-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursements.

Essentially, the only assets reported on this strictly cash receipts and disbursement basis presentation in a statement of net assets will be cash, cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the School 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 School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question.

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

In the Statement of Net Assets and the Statement of Activities, we divide the School District into two types of activities:

Governmental activities - Most of the School District's basic services are reported here, including instructional and support services, extracurricular activities, and maintenance and construction. State and federal grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activities - The School District has two business-type activities: food services and uniform school supplies. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund and the Permanent Improvements Fund.

Governmental Funds - Most of the School 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 a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Proprietary Funds - When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has two enterprise funds - the Food Service Fund and the Uniform School Supplies Fund.

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2006 and 2005, comparatively:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ASSETS						
Cash & cash equivalents	\$ 820,102	\$ 3,262,380	\$ 170,938	\$ 141,087	\$ 991,040	\$ 3,403,467
Investments	5,135,429	0	0	0	5,135,429	0
Total Assets	<u>\$ 5,955,531</u>	<u>\$ 3,262,380</u>	<u>\$ 170,938</u>	<u>\$ 141,087</u>	<u>\$ 6,126,469</u>	<u>\$ 3,403,467</u>
NET ASSETS						
Restricted for:						
Capital Outlay	\$ 611,411	\$ 552,431	\$ 0	\$ 0	\$ 611,411	\$ 552,431
Other Purposes	334,867	695,397	0	0	334,867	695,397
Set Asides	178,838	0	0	0	178,838	0
Budget Stabilization	490,091	0	0	0	490,091	0
Unrestricted	<u>4,340,324</u>	<u>2,014,552</u>	<u>170,938</u>	<u>141,087</u>	<u>4,511,262</u>	<u>2,155,639</u>
Total Net Assets	<u>\$ 5,955,531</u>	<u>\$ 3,262,380</u>	<u>\$ 170,938</u>	<u>\$ 141,087</u>	<u>\$ 6,126,469</u>	<u>\$ 3,403,467</u>

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006 and 2005, comparatively. This comparison enables the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<i>Program Receipts</i>				
Charges for Services	\$ 1,436,337	\$ 1,193,687	\$ 770,526	\$ 750,156
Operating Grants	1,353,295	1,379,025	201,368	178,171
Capital Grants	55,477	0	0	0
<i>General Receipts</i>				
Property Taxes levied for:				
General Purpose	13,226,584	12,171,766	0	0
Debt Service	0	(19)	0	0
Capital Projects	619,034	0	0	0
Grants and Entitlements	5,166,836	4,968,663	0	0
Other	360,842	259,279	6,925	2,904
Total Receipts	<u>22,218,405</u>	<u>19,972,401</u>	<u>978,819</u>	<u>931,231</u>
<i>Program Disbursements</i>				
Instruction	10,807,725	10,511,918	0	0
Support Services	7,404,277	7,286,307	0	0
Non-instructional	234,896	263,687	0	0
Extracurricular	757,400	701,179	0	0
Repayment of Debt	0	211,413	0	0
Claims	320,956	221,605	0	0
Food Services	0	0	796,327	459,585
Materials and Supplies	0	0	152,641	459,811
Total Disbursements	<u>19,525,254</u>	<u>19,196,109</u>	<u>948,968</u>	<u>919,396</u>
Increase in Net Assets	<u>\$ 2,693,151</u>	<u>\$ 776,292</u>	<u>\$ 29,851</u>	<u>\$ 11,835</u>

Governmental Activities

Several receipt sources fund the School District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$13.8 million in 2006. Grants and entitlements, also a large contributor, generated \$5.1 million. With the combination of taxes and intergovernmental funding over 85% of disbursements in governmental activities, the School District monitors both of these receipt sources very closely for fluctuations.

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 receipts and unrestricted State entitlements.

(Table 3)
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2006	2005	2006	2005
Instruction	\$ 10,807,725	\$ 10,511,918	\$ 8,856,646	\$ 9,171,475
Support Services:				
Pupil and Instructional Staff	1,441,257	1,456,045	1,401,414	1,274,875
Board of Education, Administration, Fiscal and Central	2,199,177	2,239,969	2,062,559	1,996,530
Operation and Maintenance of Plant	2,629,828	2,506,099	2,597,095	2,353,229
Pupil Transportation	1,134,015	1,084,194	1,079,704	1,023,308
Operation of Non-Instructional Services	234,896	263,687	(8,071)	23,652
Extracurricular Activities	757,400	701,179	418,315	347,310
Capital Outlay	0	0	(48,473)	0
Repayment of Debt	0	211,413	0	211,413
Claims	320,956	221,605	320,956	221,605
Total	\$ 19,525,254	\$ 19,196,109	\$ 16,680,145	\$ 16,623,397

Instruction and student support services comprise 63% of governmental program disbursements. Interest, fiscal and administration charges were 11%. Pupil transportation and the operation/maintenance of facilities accounts for 19% of governmental program disbursements. 7% of current year disbursements were comprised of Operation of Non-Instructional Services, Extracurricular Activities, and Claims.

Business-Type Activities

The District's most significant business-type activity is food services. In reviewing the business-type activities' net receipts/ (disbursements) resulting from cash basis transactions, the results of activities need to be reviewed annually.

General Fund Budgeting Highlights

The School 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 year 2006, the School District did modify its general fund budget. The School District uses budgeting systems to tightly control total budgets but provide flexibility for management.

For the general fund, budget basis receipts were \$19,953,160, over the original budget estimates of \$19,008,754. Of this \$944,406 increase, most was attributable to an increase in tax receipts.

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Set Asides and Debt Administration

Set Asides

A change in Ohio law required school districts to set aside 3% of certain receipts for capital improvements and an additional 3% for textbooks (see note 9). For fiscal year 2006, this amounted to \$377,577 for each set aside. The School District has qualifying disbursements or offsets for capital acquisition equaling \$444,822. The undispersed balance is noted as reserved equity. For the textbooks, the School District disbursed \$349,204, with the remainder scheduled to be carried forward into the 2007 fiscal year.

Debt

The school district currently has no debt.

Current Issues

The Shawnee Local School District has historically received strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy for new operating funds was passed by the residents of the district in March, 2004, with the belief that the receipts generated by the levy would provide sufficient funding for five years.

The District has been very aggressive in cost cutting and cost containment measures, while maintaining quality programs that are a trademark of Shawnee School District. Included in this effort is a careful evaluation of all positions that are open due to retirement or resignation of employees. Positions are only filled after an evaluation reaffirms its importance to the District's mission of excellence. The District's employees also returned to the Allen County Schools Health Insurance Consortium effective January 1, 2006. This move is expected to provide significant savings to the District. District employees at all levels actively pursue cost saving measures and are committed to maximizing the resources that are provided to educate the students of the district.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall receipts generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts which are heavily dependent upon property taxes are hampered by a lack of revenue growth for operating purposes and must regularly return to the voters to maintain a constant level of service. Property taxes made up 62% of receipts for governmental activities for the Shawnee Local School District in fiscal year 2006.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax receipts growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The passage of the State of Ohio's current biennial budget bill (HB66) included revisions to tax laws, including the phase out of the tangible personal property tax, with no guarantee of full revenue replacement beyond the current budget period. The District has regularly collected approximately 25% of its local taxes from personal property valuation.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Shawnee Local School District
Allen County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Greg Buddelmeyer, Treasurer of Shawnee Local District, 3255 Zurmehly Rd., Lima, OH 45806.

Shawnee Local School District
Allen County
Statement of Net Assets - Modified Cash Basis
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 820,102	\$ 170,938	\$ 991,040
Investments	5,135,429	0	5,135,429
<i>Total Assets</i>	<u>\$ 5,955,531</u>	<u>\$ 170,938</u>	<u>\$ 6,126,469</u>
 Net Assets			
Restricted for:			
Capital Outlay	\$ 611,411	\$ 0	\$ 611,411
Other Purposes	334,867	0	334,867
Set Asides	178,838	0	178,838
Budget Stabilization	490,091	0	490,091
Unrestricted	4,340,324	170,938	4,511,262
<i>Total Net Assets</i>	<u>\$ 5,955,531</u>	<u>\$ 170,938</u>	<u>\$ 6,126,469</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2006

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction							
Regular	\$ 8,204,463	\$ 1,037,652	\$ 62,496	\$ 0	\$ (7,104,315)	\$ 0	\$ (7,104,315)
Special	1,823,204	54,382	793,212	0	(975,610)	0	(975,610)
Vocational	780,058	0	3,337	0	(776,721)	0	(776,721)
Support Services							
Pupil	680,355	0	9,986	0	(670,369)	0	(670,369)
Instructional Staff	760,902	0	29,857	0	(731,045)	0	(731,045)
Board of Education	72,535	0	0	0	(72,535)	0	(72,535)
Administration	1,576,966	0	127,757	0	(1,449,209)	0	(1,449,209)
Fiscal	540,815	0	0	0	(540,815)	0	(540,815)
Operation and Maintenance of Plant	2,629,828	20,733	12,000	0	(2,597,095)	0	(2,597,095)
Pupil Transportation	1,134,015	0	47,307	7,004	(1,079,704)	0	(1,079,704)
Central	8,861	0	8,861	0	0	0	0
Operation of Non-Instructional Services	234,896	0	242,967	0	8,071	0	8,071
Extracurricular Activities	757,400	323,570	15,515	0	(418,315)	0	(418,315)
Capital Outlay	0	0	0	48,473	48,473	0	48,473
Claims	320,956	0	0	0	(320,956)	0	(320,956)
Total Governmental Activities	19,525,254	1,436,337	1,353,295	55,477	(16,680,145)	0	(16,680,145)
Business-Type Activities:							
Food Services	796,327	652,907	201,368	0	0	57,948	57,948
Materials and Supplies	152,641	117,619	0	0	0	(35,022)	(35,022)
Total Business-Type Activities	948,968	770,526	201,368	0	0	22,926	22,926
Totals	\$ 20,474,222	\$ 2,206,863	\$ 1,554,663	\$ 55,477	(16,680,145)	22,926	(16,657,219)
General Receipts							
Property Taxes Levied for:							
General Purposes					13,226,584	0	13,226,584
Capital Projects					619,034	0	619,034
Grants and Entitlements not Restricted to Specific Programs					5,166,836	0	5,166,836
Interest					255,846	6,625	262,471
Proceeds from the Sale of Assets					4,583	300	4,883
Miscellaneous					100,413	0	100,413
Total General Receipts					19,373,296	6,925	19,380,221
Change in Net Assets					2,693,151	29,851	2,723,002
Net Assets - Beginning of Year					3,262,380	141,087	3,403,467
Net Assets - End of Year					\$ 5,955,531	\$ 170,938	\$ 6,126,469

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2006

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 126,259	\$ 0	\$ 0	\$ 126,259
Investments	3,840,707	611,411	334,867	4,786,985
Restricted:				
Cash and Cash Equivalents	668,929	0	0	668,929
<i>Total Assets</i>	<u>\$ 4,635,895</u>	<u>\$ 611,411</u>	<u>\$ 334,867</u>	<u>\$ 5,582,173</u>
Fund Balances				
Reserved for Encumbrances	\$ 46,371	\$ 258,269	\$ 28,294	\$ 332,934
Reserved for Textbooks and Instructional Materials	178,838	0	0	178,838
Reserved for Budget Stabilization	490,091	0	0	490,091
Unreserved:				
Undesignated, Reported in:				
General Fund	3,920,595	0	0	3,920,595
Special Revenue Funds	0	0	306,573	306,573
Capital Projects Funds	0	353,142	0	353,142
<i>Total Fund Balances</i>	<u>\$ 4,635,895</u>	<u>\$ 611,411</u>	<u>\$ 334,867</u>	<u>\$ 5,582,173</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District

Allen County

Reconciliation of Total Governmental Fund Balances to

Net Assets of Governmental Activities

For the Fiscal Year Ended June 30, 2006

Total Governmental Fund Balances	\$5,582,173
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*Amounts reported for governmental activities in the statement of
net assets are different because*

The internal service fund was used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in the governmental activities in the statement of net assets.

373,358

Net Assets of Governmental Activities

\$5,955,531

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Permanent Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$ 13,226,584	\$ 619,034	\$ 0	\$ 13,845,618
Intergovernmental	5,368,556	48,472	1,143,065	6,560,093
Interest	196,866	23,222	9,214	229,302
Tuition and Fees	1,092,034	0	0	1,092,034
Rent	20,733	0	0	20,733
Extracurricular Activities	0	0	323,570	323,570
Gifts and Donations	170	0	52,463	52,633
Customer Sales and Services	9,459	0	0	9,459
Miscellaneous	38,758	0	300	39,058
<i>Total Receipts</i>	<u>19,953,160</u>	<u>690,728</u>	<u>1,528,612</u>	<u>22,172,500</u>
Disbursements				
Current:				
Instruction				
Regular	7,915,626	218,482	70,355	8,204,463
Special	1,236,478	0	586,726	1,823,204
Other	780,058	0	0	780,058
Support Services				
Pupil	648,919	0	31,436	680,355
Instructional Staff	609,196	81,338	70,368	760,902
Board of Education	72,535	0	0	72,535
Administration	1,419,689	6,755	150,522	1,576,966
Fiscal	528,708	12,107	0	540,815
Operation and Maintenance of Plant	2,408,941	208,887	12,000	2,629,828
Pupil Transportation	1,029,836	104,179	0	1,134,015
Central	0	0	8,861	8,861
Operation of Non-Instructional Services	0	0	234,896	234,896
Extracurricular Activities	425,424	0	331,976	757,400
<i>Total Disbursements</i>	<u>17,075,410</u>	<u>631,748</u>	<u>1,497,140</u>	<u>19,204,298</u>
<i>Excess of Receipts Over Disbursements</i>	<u>2,877,750</u>	<u>58,980</u>	<u>31,472</u>	<u>2,968,202</u>
Other Financing Sources (Uses)				
Proceeds from the Sale of Capital Assets	3,773	0	810	4,583
Refund of Prior Year Expenditures	4,379	0	0	4,379
<i>Total Other Financing Sources (Uses)</i>	<u>8,152</u>	<u>0</u>	<u>810</u>	<u>8,962</u>
<i>Net Change in Fund Balances</i>	2,885,902	58,980	32,282	2,977,164
<i>Fund Balances - Beginning of Year</i>	<u>1,749,993</u>	<u>552,431</u>	<u>302,585</u>	<u>2,605,009</u>
<i>Fund Balances - End of Year</i>	<u>\$ 4,635,895</u>	<u>\$ 611,411</u>	<u>\$ 334,867</u>	<u>\$ 5,582,173</u>
<i>Encumbrances</i>	<u>\$ 46,371</u>	<u>\$ 258,269</u>	<u>\$ 28,294</u>	<u>\$ 332,934</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District

Allen County

*Reconciliation of the Statement of Receipts, Disbursements and Changes in
Fund Balances of Governmental Funds to the Statement of Activities-Modified Cash Basis
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$2,977,164

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

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements). (284,013)

Change in Net Assets of Governmental Activities \$2,693,151

Shawnee Local School District
Allen County
Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Taxes	\$ 13,010,223	\$ 13,004,723	\$ 13,226,584	\$ 221,861
Intergovernmental	4,922,239	5,338,004	5,368,556	30,552
Interest	105,000	189,000	196,866	7,866
Tuition and Fees	898,542	1,094,542	1,092,034	(2,508)
Rent	26,000	26,000	20,733	(5,267)
Gifts and Donations	6,000	6,000	170	(5,830)
Customer Sales and Services	10,000	10,000	9,459	(541)
Miscellaneous	30,750	37,750	38,758	1,008
<i>Total Receipts</i>	<u>19,008,754</u>	<u>19,706,019</u>	<u>19,953,160</u>	<u>247,141</u>
Disbursements				
Current:				
Instruction				
Regular	7,952,190	7,957,343	7,923,968	33,375
Special	1,386,934	1,259,258	1,236,521	22,737
Other	780,474	786,701	780,058	6,643
Support Services				
Pupil	661,441	662,197	649,551	12,646
Instructional Staff	671,798	651,310	616,512	34,798
Board of Education	64,385	74,085	72,535	1,550
Administration	1,515,268	1,432,316	1,421,563	10,753
Fiscal	536,229	533,211	528,708	4,503
Operation and Maintenance of Plant	2,423,560	2,449,416	2,409,997	39,419
Pupil Transportation	1,071,721	1,134,843	1,056,944	77,899
Extracurricular Activities	500,159	429,411	425,424	3,987
<i>Total Disbursements</i>	<u>17,564,159</u>	<u>17,370,091</u>	<u>17,121,781</u>	<u>248,310</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,444,595</u>	<u>2,335,928</u>	<u>2,831,379</u>	<u>495,451</u>
Other Financing Sources (Uses)				
Proceeds from the Sale of Capital Assets	5,000	5,000	3,773	(1,227)
Refund of Prior Year Expenditures	10,000	3,000	4,379	1,379
<i>Total Other Financing Sources (Uses)</i>	<u>15,000</u>	<u>8,000</u>	<u>8,152</u>	<u>152</u>
<i>Net Change in Fund Balances</i>	1,459,595	2,343,928	2,839,531	495,603
<i>Fund Balances - Beginning of Year (Restated - See Note 3)</i>	1,639,204	1,639,204	1,639,204	0
<i>Prior Year Encumbrances Appropriated</i>	<u>110,789</u>	<u>110,789</u>	<u>110,789</u>	<u>0</u>
<i>Fund Balances - End of Year</i>	<u>\$ 3,209,588</u>	<u>\$ 4,093,921</u>	<u>\$ 4,589,524</u>	<u>\$ 495,603</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2006

	Business - Type Activities	Governmental Activities
	Enterprise	Internal Service
Assets		
Cash and Cash Equivalents	\$ 170,938	\$ 24,914
Investments	0	348,444
<i>Total Assets</i>	\$ 170,938	\$ 373,358
 Net Assets		
Unrestricted	\$ 170,938	\$ 373,358
<i>Total Net Assets</i>	\$ 170,938	\$ 373,358

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Operating Receipts		
Sales	\$ 770,526	\$ 0
Operating Disbursements		
Salaries	303,694	0
Fringe Benefits	80,480	98,715
Purchased Services	59,264	0
Materials and Supplies	505,530	0
Claims	0	222,241
<i>Total Operating Expenses</i>	<u>948,968</u>	<u>320,956</u>
<i>Operating Loss</i>	<u>(178,442)</u>	<u>(320,956)</u>
Non-Operating Receipts		
Interest	6,625	26,544
Federal and State Subsidies	201,368	0
Refund of Prior Year Expenses	0	10,399
Proceeds from Sale of Capital Assets	300	0
<i>Total Non-Operating Receipts</i>	<u>208,293</u>	<u>36,943</u>
<i>Change in Net Assets</i>	29,851	(284,013)
<i>Net Assets - Beginning of Year</i>	<u>141,087</u>	<u>657,371</u>
<i>Net Assets - End of Year</i>	<u>\$ 170,938</u>	<u>\$ 373,358</u>

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Fiduciary Net Assets - Modified Cash Basis-Proprietary Funds
June 30, 2006

	Private Purpose Trust	Agency
Assets		
Equity Pooled in Cash and Cash Equivalents	\$ 1,346,928	\$ 30,047
<i>Total Assets</i>	\$ 1,346,928	\$ 30,047
Net Assets		
Unrestricted	\$ 1,317,861	\$ 0
Held in Trust for Scholarships	29,067	0
Held for Student Activities	0	30,047
<i>Total Net Assets</i>	\$ 1,346,928	\$ 30,047

See accompanying notes to the basic financial statements.

Shawnee Local School District
Allen County
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Year Ended June 30, 2006

	<u>Private Purpose Trust</u>
Additions	
Gifts and Contributions	\$ 440
Interest	<u>41,347</u>
<i>Total Additions</i>	41,787
Deductions	
Payments in Accordance with Trust Agreements	<u>33,594</u>
<i>Change in Net Assets</i>	8,193
<i>Net Assets - Beginning of Year</i>	<u>1,338,735</u>
<i>Net Assets - End of Year</i>	<u>\$ 1,346,928</u>

See accompanying notes to the basic financial statements.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Shawnee Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected, five-member Board. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls the Local School District staffed by 160 certified teaching personnel and 111 non-certified support personnel to provide services to 2,550 students.

The School District is located in Allen County, and includes the Village of Ft. Shawnee and portions of Shawnee and American Townships.

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

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

The following activities are included within the reporting entity:

Parochial Schools – Within the School District boundaries, Lima Central Catholic High School and St. Charles Elementary School are operated through the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activities of these State monies by the School District are reflected in a special revenue fund for financial reporting purposes.

The School District is associated with the Northwest Ohio Area Computer Services Cooperative and the Apollo Joint Vocational School which are jointly governed organizations. Information about these organizations is presented in Note 10 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following are the more significant of the School District's accounting policies:

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School district. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts and expenditures/disbursements. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental funds:

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Permanent Improvement Fund	This fund accounts for special revenues used for the operation and maintenance of the district's instructional facilities.

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

Proprietary Fund/Business-Type Activities

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary funds account for the uniform school supplies and lunch room funds.

Enterprise funds are used to account for business-like activities provided by the School District. The intent of the School District is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The internal service fund is used to account for the financing of goods and services provided by one department or agency to other department or agencies of the District, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust funds account for endowments and scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the function level within the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected receipts of each fund. Prior to June 30, the School District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the School District Treasurer.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of disbursements, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

The Board may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year disbursements for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$196,866, which includes amounts assigned from other School District funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest are reported as disbursements when paid.

H. Intergovernmental Receipts

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant is received.

I. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

J. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The school district recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

L. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for capital improvements and Federal and State grants restricted to expenditures for specific purposes. Net assets are restricted for set asides.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

The School District records reservations for portions of fund equity which are legally segregated for 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 are established for encumbrances, textbooks and instructional materials, and budget stabilization.

M. Receipts and Expenditures

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District’s taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants, and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

NOTE 3 – NEW ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. New Accounting Principle

For fiscal year 2006, the School District has implemented GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation.”

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. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the School District; however, an additional note disclosure can be found in Note 2L.

B. Restatement of Fund Balance

In the prior year, the general fund balance was overstated by \$255,681 on the budgetary basis statements. To correct this error, the beginning fund balance has been restated as follows:

<u>Budget (Non-GAAP Basis) Fund Balance</u>	<u>General Fund</u>
Previously Reported Fund Balance at 06/30/05	\$ 1,894,885
Correction of Error	<u>(255,681)</u>
Restated Fund Balance at 06/30/05	<u>\$ 1,639,204</u>

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, 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 may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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

As of June 30, 2006, the School District had \$1,400 in undeposited cash on hand which is included in the fund balance.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the School District's deposits was \$2,366,617 and the bank balance was \$2,728,015. Of the bank balance, \$400,000 was covered by federal depository insurance and \$2,328,015 was uninsured. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at cost, which approximates fair value. As of June 30, 2006, the School District had the following investments:

	Value as of 06/30/06	% of Investment Total	Maturities	
			0-1 Year	1-5 Years
US Treasuries/Agency Bonds	\$5,135,429	100.00%	\$ 809,169	\$ 4,326,260
Total Investments	<u>\$5,135,429</u>	<u>100.00%</u>	<u>\$ 809,169</u>	<u>\$ 4,326,260</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute.

The school's investments in US Treasuries/Agency Bonds include securities in Federal Home Loan Bank and Federal National Mortgage Association Notes with a Standard and Poor credit rating of AAA/Stable are held by the investment's counterparty, not in the name of the School District.

Concentration Risk

The School District policy places no limit on the amount they may invest in any one issuer. It is required that the School District's portfolio remain sufficiently liquid to meet reasonably anticipated operational requirements. 100 percent of the School District's investments are in US Treasury/Agency bonds.

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First half distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2006 represent the collection of calendar year 2005 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2006 were levied after April 1, 2005 on the assessed value listed as of the prior January 1, the lien date. 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 receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in Calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

NOTE 6 - RISK MANAGEMENT

1. Property and Liability

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

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 6 - RISK MANAGEMENT (continued)

Professional liability and vehicles are also protected by Indiana Insurance Company. Settled claims have not exceeded the commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

2. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating School Districts is calculated as one experience and a common premium rate is applied to all School Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRP.

Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

3. Health Care Benefits

The School District participates in the Allen County Schools Health Insurance Consortium, a consortium of School Districts and other political subdivisions. The School District pays monthly premiums to the Consortium for employee medical, dental and vision insurance coverage. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800)878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal years 2005 and 2004, 9.09 percent and 5.46 percent was used to fund pension obligations, respectively. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's contributions to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$411,669, \$488,376, and \$503,430, respectively; 100 percent has been contributed for the fiscal years 2006, 2005 and 2004.

Shawnee Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2006

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits based on eligible service credit to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combine Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

The School District's required contributions for the fiscal years ended June 30, 2006, 2005, and 2004 were \$850,253, \$1,355,590, and \$1,288,741, respectively; 100 percent has been contributed for the fiscal years 2006, 2005 and 2004.

C. Social Security System

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

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 8 - POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician 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 on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

At June 30, 2005 (the latest information available), the employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. 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.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants eligible to receive benefits.

NOTE 9 - STATUTORY RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2006, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 9 - STATUTORY RESERVES (continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal years 2006.

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>
Carry Over Balance, 6/30/2005	\$ 150,465	\$ 54,841	\$ 490,091
Required Set-Aside	377,577	377,577	0
Qualifying Expenditures	<u>(349,204)</u>	<u>(444,822)</u>	<u>0</u>
Total	<u>\$ 178,838</u>	<u>\$ (12,404)</u>	<u>\$ 490,091</u>
Excess Available for Carry-over to Subsequent Year	<u>\$ 178,838</u>	<u>\$ 0</u>	

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS

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

Apollo Career Center - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the eleven participating School Districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Career Center, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806

NOTE 11 - GROUP PURCHASING POOL

Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 12 - CONTRACTUAL COMMITMENTS

At June 30, 2006 the School District had an outstanding contractual commitment for bus purchases of \$126,480.

NOTE 13 - CONTINGENCIES

Grants

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

**Shawnee Local School District
Allen County**

Notes To The Basic Financial Statements
June 30, 2006

NOTE 14 – ACCOUNTABILITY

Section 5705.10, Revised Code, states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay obligations of the fund or funds carrying the deficit cash balance. The following funds had deficit cash balances at June 30, 2006:

<u>Fund</u>	<u>Deficit Cash Balance</u>
Uniform School Supplies	\$ 37,098
Title I – JDC FY06	886
Title V – FY06	707

NOTE 15 – SUBSEQUENT EVENT

In July, 2007 the School District issued an \$845,157 unvoted general obligation loan to Honeywell Global Finance for the purpose of providing energy conservation measures for the School District under HB264. The loan was issued for a fifteen year period with final maturity during fiscal year 2022. Semi-annual payments of \$39,046, including interest of 4.5%, will be made throughout the term of the loan. The loan will be retired from the debt service fund.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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www.reacpa.com

We're Ready For Your Future

December 5, 2006

To the Board of Education
Shawnee Local School District
Lima, Ohio 45806

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Shawnee Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2006, where in we noted that the District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 Shawnee Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management of the District in a separate letter dated December 5, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2006-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 5, 2006.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

We're Ready For Your Future

December 5, 2006

To the Board of Education
Shawnee Local School District
Lima, Ohio 45806

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Shawnee Local 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 each of its major federal programs for the year ended June 30, 2006. Shawnee Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shawnee Local School District's management. Our responsibility is to express an opinion on Shawnee Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 Shawnee Local 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 Shawnee Local School District's compliance with those requirements.

In our opinion, Shawnee Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Shawnee Local 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 Shawnee Local School District's internal control over compliance with requirements that could have a direct and material effect on a 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 a 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 Shawnee Local School District's management, the Board of Education, the Ohio Auditor of State, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

Shawnee Local School District
Allen County
Schedule of Expenditures of Federal Awards-Cash Basis
For the Fiscal Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Receipts</u>	<u>Federal Disbursements</u>	<u>Non-cash Transactions</u>
U.S. Department of Education					
<i>(Passed through Ohio Department of Education):</i>					
Title 1	84.010	C1S1-2005	\$ 1,669	\$ 0	\$ 0
Title 1	84.010	C1S1-2006	180,669	177,441	0
Title 1 - JDC	84.010	C1SD-2005	(4,892)	0	0
Title 1 - JDC	84.010	C1SD-2006	62,543	66,658	0
			<u>239,989</u>	<u>244,099</u>	<u>0</u>
IDEA-B	84.027	6BSF-2006	541,756	541,756	0
Title V	84.298	C2S1-2005	805	14	0
Title V	84.298	C2S1-2006	7,329	8,036	0
			<u>8,134</u>	<u>8,050</u>	<u>0</u>
Title IV Safe/Drug Free	84.186	DRS1-2006	8,870	8,870	0
Title II-A Improving Teacher Quality	84.367	TRS1-2005	(3,160)	0	0
Title II-A Improving Teacher Quality	84.367	TRS1-2006	65,156	64,532	0
			<u>61,996</u>	<u>64,532</u>	<u>0</u>
Hurricane Recovery Act	84.938	HR01-2006	13,000	13,000	0
Advanced Placement Fee Program	84.330	AVTF-2004	156	156	0
Title II-D	84.318	TJS1-2005	(443)	0	0
Raising the Bar	84.318	TJS1-2006	8,010	6,588	0
			<u>7,567</u>	<u>6,588</u>	<u>0</u>
Total U.S. Department of Education			<u>881,468</u>	<u>887,051</u>	<u>0</u>
U.S. Department of Agriculture					
<i>(Passed through Ohio Department of Education):</i>					
Food Distribution Program	10.550		42,153	0	42,153
School Lunch Program	10.555	LLP4-2005 & LLP4-2006	193,925	193,925	0
Total Department of Agriculture-Nutrition Cluster			<u>236,078</u>	<u>193,925</u>	<u>42,153</u>
Total Federal Financial Assistance			<u>\$ 1,117,546</u>	<u>\$ 1,080,976</u>	<u>\$ 42,153</u>

Shawnee Local School District
Allen County
 Schedule of Findings and Questioned Costs
 OMB Circular A-133, Section .505
 June 30, 2006

1. Summary of Auditor's Results

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster, CFDA #84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

Finding 2006-001 Ohio Administrative Code Section 117-2-03 (repeat of 2005-001)

Ohio Admin. Code Section 117-2-03 states the School District is to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2006, the District reported its financial statements on the cash basis of accounting with a GASB 34 presentation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, fund liabilities, equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

3. Findings and Questioned Costs for Federal Awards

None were noted

Shawnee Local School District
Allen County
 Schedule of Prior Audit Findings
 June 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Financial Statements – Should be prepared in accordance with generally accepted accounting principles.	No	Not Corrected – The District plans to continue reporting on the cash basis.

Corrective Action Plan

Responsible Contact Person: Greg Buddelmeyer, Treasurer

Finding 2006-001: Ohio Admin. Code Section 117-2-03 (Repeat of 2005-001)

No corrective action plan will be implemented. Shawnee Local School District plans to continue reporting on the cash basis.



Mary Taylor, CPA
Auditor of State

SHAWNEE LOCAL SCHOOL DISTRICT

ALLEN 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 6, 2007