



Mary Taylor, CPA
Auditor of State

**WARREN COUNTY VOCATIONAL SCHOOL DISTRICT
WARREN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Warren County Vocational School District
Warren County
3529 North State Route 48
Lebanon, Ohio 45036

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

March 29, 2007

*Warren County Vocational School District
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(unaudited)*

The management's discussion and analysis of Warren County Vocational School District's (the "School District") financial performance provides an overall review of the 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 financial performance as a whole; readers should also review the notes to the financial statement and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- ✓ Governmental total assets exceeded total liabilities at the close of the most recent fiscal year by \$10.33 million for governmental activities.
- ✓ General revenues in governmental activities accounted for \$11.11 million in revenue or 83.48 percent of all revenues. Program specific revenues in charges for services and grants and contributions accounted for \$2.20 million or 16.52 percent of \$13.30 million in total governmental activities revenue.
- ✓ The business-type activities were financed through programs revenues of \$0.12 million resulting in year end net assets of \$0.01 million.
- ✓ At the end of the current fiscal year, cash and cash equivalents of \$6.90 million accounted for 46.03 percent of total assets, excluding capital assets, an increase of over six percent from last year.
- ✓ The School District had \$11.67 million in expenses relating to governmental activities; only \$2.20 million of these expenses were offset by program specific revenues. General revenues were adequate to cover the \$9.47 million net expense of governmental programs.
- ✓ Among major funds, the general fund had \$11.24 million in revenues and \$9.25 in expenditures. The general fund's balance at the close of the current year was 54.03 percent of the current year's expenditures.
- ✓ The School District is currently transferring cash when available to the permanent improvement fund to address facility as well as technology replacement issues over the next five years. The main facility is over thirty years old. Discussions had started to contract with an architect to review renovation needs and technology upgrades.

*Warren County Vocational School District
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(unaudited)*

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all the School District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general instruction of secondary students and the associated support for those services. The business-type activities include the education of adults and general customer services for the School District. The government-wide financial statements can be found on pages 13-14 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

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(unaudited)*

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

The School District maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the general and adult education funds, which are considered major funds. Data from the other twenty-one governmental funds are combined into a single, aggregate presentation.

The School District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 13-18 of this report.

Proprietary Funds. The School District maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The School District used enterprise funds to account for its customer service. *Internal service fund* is an accounting device used to accumulate and allocate costs among the School District's various functions. The School District used the internal service fund to account for its internal health care coverage. Because this service predominately benefits governmental rather than business-type functions, it has been included within the *governmental activities* in the government-wide financial statements. The proprietary fund statements can be found on pages 19-21.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 22 of this report.

Notes to the Financial Statement. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 23 of this report.

Warren County Vocational School District
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(unaudited)

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net assets for 2005 to 2006.

Table 1
Net Assets

	<i>Governmental Activities</i>			<i>Business-Type Activities</i>		
	<i>(In millions)</i>					
	<u>2005</u>	<u>2006</u>	<u>Change</u>	<u>2005</u>	<u>2006</u>	<u>Change</u>
Assets						
Current and Other Assets	\$12.97	\$14.99	\$2.02	\$97,870	(\$3,202)	(\$101,072)
Capital Assets	4.80	4.93	0.13	11,347	9,940	(1,407)
<i>Total Assets</i>	<u>17.77</u>	<u>19.92</u>	<u>2.15</u>	<u>109,217</u>	<u>6,738</u>	<u>(102,479)</u>
Liabilities						
Long-term Liabilities	1.46	1.24	(0.22)	0	0	0
Other Liabilities	7.63	8.36	0.73	2,789	37	(2,752)
<i>Total Liabilities</i>	<u>9.09</u>	<u>9.60</u>	<u>0.51</u>	<u>2,789</u>	<u>37</u>	<u>(2,752)</u>
Net Assets						
Invested in Capital Assets, net of related debt	3.70	4.02	0.32	11,347	9,940	(1,407)
Restricted	0.86	1.30	0.44	0	0	0
Unrestricted	4.12	5.00	0.88	95,081	(3,239)	(98,320)
<i>Total Net Assets</i>	<u>\$8.68</u>	<u>\$10.32</u>	<u>\$1.64</u>	<u>\$106,428</u>	<u>\$6,701</u>	<u>(\$99,727)</u>

Liabilities for governmental activities increased due to larger anticipated taxes receivable which is considered unearned revenue for the School District at year end. The School District was able to increase current and other assets in the governmental activities mainly due to the increase in the cash balance from controlling expenditures throughout the fiscal year. As noted in the financial highlights, the School District was able to increase the cash and cash equivalents by six percent during the fiscal year.

The School District is maintaining larger cash reserves and currently is transferring those reserves when available to the permanent improvement fund to address facility as well as technology replacement issues over the next five years. The main facility is over thirty years old. Discussions had started to contract with an architect to review renovation needs and technology upgrades.

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Graph 1 breaks down the School District's governmental activities revenues into percentages by type of revenue.

Graph 1

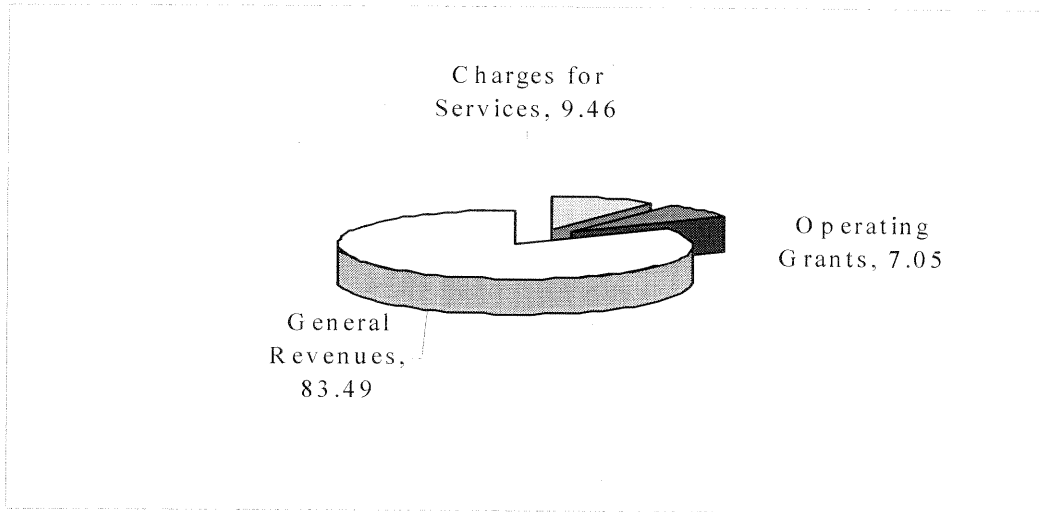


Table 2 details the actual amounts (in thousands) for the School District as a whole from 2005 to 2006.

	Governmental Activities		Business-Type Activities		Primary Government	
	2005	2006	2005	2006	2005	2006
Program Revenues						
Charges for Services	\$1,234	\$1,259	\$110	\$123	\$1,344	\$1,382
Operating Grants and Contributions	876	938	0	0	876	938
Total Program Revenues	2,110	2,197	110	123	2,220	2,320
General Revenues						
Property Taxes	6,813	5,729	0	0	6,813	5,729
Payment in Lieu of Taxes	35	34	0	0	35	34
Unrestricted Grants and Contributions	3,865	5,062	0	0	3,865	5,062
Investment Earnings	107	230	0	0	107	230
Miscellaneous	43	51	0	0	43	51
Total General Revenues	10,863	11,106	0	0	10,863	11,106
All Revenues	\$12,973	\$13,303	\$110	\$123	\$13,083	\$13,426

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Warren County, Ohio
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Table 3 compares total program expenses from fiscal year 2005 to 2006.

Table 3
(in thousands)

	Governmental Activities		Business-Type Activities		Primary Government	
	2005	2006	2005	2006	2005	2006
Program Expenses						
<i>Instruction:</i>						
Special	\$128	\$128	\$0	\$0	\$128	\$128
Vocational	5,869	5,823	0	0	5,869	5,823
Adult/Continuing	136	154	0	0	136	154
<i>Support Services:</i>						
Pupils	1,111	1,018	0	0	1,111	1,018
Instructional Staff	373	426	0	0	373	426
Board of Education	28	16	0	0	28	16
Administration	1,012	1,356	0	0	1,012	1,356
Fiscal	484	456	0	0	484	456
Business	81	13	0	0	81	13
Operation and Maintenance	811	606	0	0	811	606
Pupil Transportation	86	84	0	0	86	84
Central	1,127	1,234	0	0	1,127	1,234
Operation on Non-Instructional Services	16	18	0	0	16	18
Food Service	243	240	0	0	243	240
Extracurricular Activities	37	61	0	0	37	61
Rotary	0	0	101	223	101	223
Interest and Fiscal Charges	21	35	0	0	21	35
Total Expenses	11,563	11,668	101	223	11,664	11,891
Change in Net Assets	1,410	1,635	9	(100)	1,419	1,535
Beginning Net Assets	7,274	8,684	97	106	7,371	8,790
Ending Net Assets	\$8,684	\$10,319	\$106	\$6	\$8,790	\$10,325

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The School District saw a decrease property taxes from the prior year for two reasons. First, there was \$453,000 additional taxes available for advance in 2005 and secondly the state reduced the personal property tax amount collected in 2006. This amount was reimbursed to the School District through additional revenue provided by the state. The state also increased state foundation revenue through building block revenue in 2006. Those two items also explain the School District's increased intergovernmental revenue over the prior year.

The School District was able to maintain the overall expenses within less than one percent from 2005 by maintaining a higher administrative control over departmental budgets. The pupils and operation and maintenance support services recognized the largest reductions as the School District continued to monitor those expenditures and reduce costs where appropriate.

The Major Funds

The School District's major funds start on page 15 for governmental funds. These funds are accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the School District. The major funds account for 93.27% of the \$13.30 million in total revenue and 87.67% percent of the \$12.02 million in total expenditures. The general fund received a majority of their revenues from property taxes and intergovernmental revenues. Revenues were greater than expenditures in the general fund creating a year end fund balance of \$5.00 million even with the School District transferring over a million dollars for permanent improvement purposes. The adult education fund received a majority of its revenues from charges for services or fees which reported a positive change in net assets for the fiscal year.

The general fund recognized \$0.71 million in current liabilities for fiscal year 2006. Accrued salaries and benefits accounted for 77.52% of those liabilities. The general fund maintained a cash balance of \$5.00 million, which accounted for 74.16% of total School District governmental funds cash balance.

One of the School District express purposes is to service the adult community through various programs. The School District served over 8,400 adults during 2006. With \$1.29 million in expenditures, the adult education fund is second only to the general fund in expenditures that the School District incurs on an annual basis. The School District was able to increase the adult education fund balance by \$0.01 million for the fiscal year, which marks the third year in row for positive change in fund balance.

*Warren County Vocational School District
Warren County, Ohio
Management's Discussion and Analysis
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(unaudited)*

General Fund Budgetary

Graph 3 depicts the change from the original to the final general fund revenue budget for the fiscal year ended June 30, 2006.

*Graph 3
Original Budget versus Final Budget for General Fund*

	Budget	
	Original	Final
<u>Revenues:</u>		
Property Taxes	\$6,605,070	\$6,319,770
Intergovernmental	4,181,000	5,064,117
Other	247,500	437,784
Total Revenues	11,033,570	11,821,671
<u>Expenditures:</u>		
Current:		
Instruction	5,974,636	5,532,430
Support Services	4,231,952	3,918,729
Other	366,453	339,329
Total Expenditures	\$10,573,041	\$9,790,488

The two major differences in revenue were property taxes decreasing \$285,300 and intergovernmental revenues increasing \$883,117. Both of those differences can be explained through the School District's loss of personal property tax revenue that was reimbursed through funds the state provided as part of the hold harmless provision. The School District also took a "slight increase" approach when predicting school foundation monies (intergovernmental revenue).

Final budgeted expenditures were reduced by approximately 7.5 percent from the original budgeted expenditures. The School District decreased the final budget for reduced purchased service costs throughout the functions that were anticipated during the preparation of the original budget.

Final Budget versus Actual Results

The School District prepared the final budget towards the end of June 2006 when actual results were known. There is no difference in the final revenue amounts except \$7,893 for a interest the School District received at the end of June and a payment in lieu of taxes in June.

For actual expenditures to final budgeted amounts, the School District completed the final budget during the last week of June when the final expenditures amounts were known.

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Warren County, Ohio
Management's Discussion and Analysis
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(unaudited)

Capital Assets

During 2006, the School District saw an increase of \$0.13 million invested in land, buildings, equipment, and vehicles. A schedule showing accumulated depreciation and the breakdown of current year depreciation can be found in note 8 of the financial statements. Table 4 shows the breakdown of the individual classes for capital assets (not including accumulated depreciation).

Table 4
Capital Assets, net of depreciation

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2005	2006	2005	2006	2005	2006	2005-06
Land	\$456,000	\$456,000	\$0	\$0	\$456,000	\$456,000	0.00%
Construction In Process	680,782	0	0	0	680,782	0	-100.00%
Land Improvements	105,514	221,592	0	0	105,514	221,592	110.00%
Buildings and Improvements	6,960,718	7,967,773	8,530	8,530	6,969,248	7,976,303	14.44%
Furniture and Equipment	3,981,039	4,230,005	4,901	4,901	3,985,940	4,234,906	6.25%
Vehicles	404,124	461,714	0	0	404,124	461,714	14.25%
Accumulated Depreciation	(7,792,625)	(8,405,599)	(2,084)	(3,491)	(7,794,709)	(8,409,090)	7.88%
Total	<u>\$4,795,552</u>	<u>\$4,931,485</u>	<u>\$11,347</u>	<u>\$9,940</u>	<u>\$4,806,899</u>	<u>\$4,941,425</u>	<u>2.80%</u>

Debt Administration

The School District has no long term general obligation debt. The School District paid down the capital lease obligation in the amount of \$187,040. The School District entered into two capitalized leases for the 2005 year relating to the purchase of CAT equipment and replacing the roof on the main instructional building. For further information on the School District's obligations refer to notes 13 and 14 of the financial statements.

*Warren County Vocational School District
Warren County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(unaudited)*

Other items impacting the financial strength of the School District

The School District is located within Warren County and benefits from development occurring throughout the County. As one of the fastest growing counties in the State, the School District saw property assessed valuations increase another nine percent which is slightly below the average of eleven percent from 2000 to 2005. Given the size of the valuation for the School District, this continued increase in valuation signifies that the area is a growing community and the School District should continue to see economic growth throughout its jurisdictional boundaries.



Request for Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, Warren County VSD, 3529 N. SR 48, Lebanon, Ohio 45036.

Treasurer
Warren County
Vocational School District

Warren County Vocational School District
Warren County, Ohio
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$6,752,898	145,599	\$6,898,497
Receivables:			
Property and Other Taxes	7,898,062	0	7,898,062
Accounts	47,535	1,682	49,217
Accrued Interest	25,320	0	25,320
Intergovernmental	16,734	0	16,734
Materials and Supplies Inventory	98,886	0	98,886
Internal Balances	150,483	(150,483)	0
Nondepreciable Capital Assets	456,000	0	456,000
Depreciable Capital Assets	4,475,485	9,940	4,485,425
Total Assets	<u>19,921,403</u>	<u>6,738</u>	<u>19,928,141</u>
<u>Liabilities</u>			
Payables:			
Accounts	51,261	37	51,298
Contracts	66,895	0	66,895
Intergovernmental	130,184	0	130,184
Salaries and Employee Benefits	574,326	0	574,326
Deferred Revenue	7,534,650	0	7,534,650
Noncurrent Liabilities:			
Due within one year	339,702	0	339,702
Due in more than one year	905,371	0	905,371
Total Liabilities	<u>9,602,389</u>	<u>37</u>	<u>9,602,426</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	4,020,893	9,940	4,030,833
Restricted for:			
Grants	27,219	0	27,219
Capital Improvements	1,273,098	0	1,273,098
Unrestricted	4,997,804	(3,239)	4,994,565
Total Net Assets	<u>\$10,319,014</u>	<u>\$6,701</u>	<u>\$10,325,715</u>

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:						
Instruction:						
Special	\$128,389	\$0	\$0	(\$128,389)	\$0	(\$128,389)
Vocational	5,822,784	344,495	268,710	(5,209,579)	0	(5,209,579)
Adult/Continuing	154,298	0	120,875	(33,423)	0	(33,423)
Support Services:						
Pupils	1,018,043	9,365	84,606	(924,072)	0	(924,072)
Instructional Staff	425,506	0	134,937	(290,569)	0	(290,569)
Board of Education	16,259	0	0	(16,259)	0	(16,259)
Administration	1,355,442	213,567	82,415	(1,059,460)	0	(1,059,460)
Fiscal	455,805	0	0	(455,805)	0	(455,805)
Business	13,315	0	0	(13,315)	0	(13,315)
Operation and Maintenance of Plant	606,275	37,801	0	(568,474)	0	(568,474)
Pupil Transportation	83,649	0	0	(83,649)	0	(83,649)
Central	1,234,160	484,224	207,763	(542,173)	0	(542,173)
Operation of Non-Instructional Services	17,798	0	0	(17,798)	0	(17,798)
Food Service	239,414	169,581	38,699	(31,134)	0	(31,134)
Extracurricular Activities	61,770	0	0	(61,770)	0	(61,770)
Interest and Fiscal Charges	35,270	0	0	(35,270)	0	(35,270)
Total Governmental Activities	<u>11,668,177</u>	<u>1,259,033</u>	<u>938,005</u>	<u>(9,471,139)</u>	<u>0</u>	<u>(9,471,139)</u>
Business-Type Activities:						
Customer Service	222,964	123,237	0	0	(99,727)	(99,727)
Total Business-Type Activities	<u>222,964</u>	<u>123,237</u>	<u>0</u>	<u>0</u>	<u>(99,727)</u>	<u>(99,727)</u>
Total Primary Government	<u>\$11,891,141</u>	<u>\$1,382,270</u>	<u>\$938,005</u>	<u>(9,471,139)</u>	<u>(99,727)</u>	<u>(9,570,866)</u>
General Revenues:						
Property Taxes				5,728,804	0	5,728,804
Payment in Lieu of Taxes				34,447	0	34,447
Grants and Contributions not restricted to specific programs				5,061,917	0	5,061,917
Unrestricted investment earnings				229,879	0	229,879
Miscellaneous				51,468	0	51,468
Total General Revenues				<u>11,106,515</u>	<u>0</u>	<u>11,106,515</u>
Changes in Net Assets				1,635,376	(99,727)	1,535,649
Net Assets-Beginning				8,683,638	106,428	8,790,066
Net Assets-Ending				<u>\$10,319,014</u>	<u>\$6,701</u>	<u>\$10,325,715</u>

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Balance Sheet - Governmental Funds
June 30, 2006

	General	Adult Education	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,007,925	352,197	1,392,685	\$6,752,807
Receivables:				
Property and Other Taxes	7,898,062	0	0	7,898,062
Accounts	45,698	0	1,837	47,535
Interfund	169,540	0	13,158	182,698
Accrued Interest	25,320	0	0	25,320
Intergovernmental	0	0	16,734	16,734
Materials and Supplies Inventory	96,452	0	2,434	98,886
Due from Other Funds	0	643	0	643
	<u>13,242,997</u>	<u>352,840</u>	<u>1,426,848</u>	<u>15,022,685</u>
Total Assets				
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Payables:				
Accounts	47,759	861	2,641	51,261
Contracts	0	0	66,895	66,895
Due to Local Governments	112,367	5,768	12,049	130,184
Salaries and Employee Benefits	552,299	12,621	9,406	574,326
Interfund	0	19,991	12,224	32,215
Due to Other Funds	0	0	643	643
Deferred Revenue	7,534,650	0	0	7,534,650
	<u>8,247,075</u>	<u>39,241</u>	<u>103,858</u>	<u>8,390,174</u>
Total Liabilities				
<u>Fund Balances:</u>				
Reserved for:				
Encumbrances	399,768	37,744	271,076	708,588
Property Taxes	255,350	0	0	255,350
Unreserved, reported in:				
General	4,340,804	0	0	4,340,804
Special Revenue	0	275,855	46,969	322,824
Capital Projects	0	0	1,004,945	1,004,945
Permanent Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>4,995,922</u>	<u>313,599</u>	<u>1,322,990</u>	<u>6,632,511</u>
Total Fund Balances				
Total Liabilities and Fund Balances	<u>\$13,242,997</u>	<u>\$352,840</u>	<u>\$1,426,848</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	4,931,485
Internal service fund is used by management to charge the cost of benefit insurance to employees	91
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,245,073)

\$10,319,014

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2006

	General	Adult Education	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$5,728,804	\$0	\$0	\$5,728,804
Intergovernmental	5,061,917	326,297	611,708	5,999,922
Charges for Services	0	0	159,062	159,062
Tuition and Fees	104,240	842,624	92,238	1,039,102
Interest	219,922	0	9,957	229,879
Gifts and Donations	2,286	540	2,600	5,426
Payment in Lieu of Taxes	34,447	0	0	34,447
Rent	37,801	0	0	37,801
Miscellaneous	46,582	2,644	19,884	69,110
Total Revenues	<u>11,235,999</u>	<u>1,172,105</u>	<u>895,449</u>	<u>13,303,553</u>
Expenditures:				
Current:				
Instruction:				
Special	125,361	0	0	125,361
Vocational	5,208,438	206,023	322,749	5,737,210
Adult Education	0	46,391	113,026	159,417
Support Services:				
Pupils	835,505	67,961	100,487	1,003,953
Instructional Staff	277,698	4,660	129,967	412,325
Board of Education	15,586	0	0	15,586
Administration	1,032,966	296,353	0	1,329,319
Fiscal	449,257	0	0	449,257
Business	176	0	0	176
Operation and Maintenance of Plant	564,099	0	0	564,099
Pupil Transportation	45,142	0	56,200	101,342
Central	329,554	671,052	21,000	1,021,606
Operation of Non-Instructional Services	6,985	40	258,594	265,619
Extracurricular Activities	60,744	0	0	60,744
Capital Outlay	72,721	0	481,018	553,739
Debt Service:				
Principal Retirement	187,040	0	0	187,040
Interest and Fiscal Charges	35,270	0	0	35,270
Total Expenditures	<u>9,246,542</u>	<u>1,292,480</u>	<u>1,483,041</u>	<u>12,022,063</u>
Excess (deficiency) of Revenues Over (Under) Expenditures	1,989,457	(120,375)	(587,592)	1,281,490
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	25	0	0	25
Transfers - In	0	124,916	1,032,200	1,157,116
Transfers - Out	(1,157,116)	0	0	(1,157,116)
Total Other Financing Sources (Uses)	<u>(1,157,091)</u>	<u>124,916</u>	<u>1,032,200</u>	<u>25</u>
Net Change in Fund Balances	832,366	4,541	444,608	1,281,515
Fund Balances (Deficit) - beginning	4,163,556	309,058	878,382	
Fund Balances (Deficit) - ending	<u>\$4,995,922</u>	<u>\$313,599</u>	<u>\$1,322,990</u>	

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

Net Change in Fund Balances - total governmental funds

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 135,933

Repayment of long-term obligations is reported as an expenditure in governmental funds, the repayment reduces long-term liabilities in the statement of net assets. 217,928

Change in net assets of governmental activities \$1,635,376

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual -
General Fund
For the Year Ended June 30, 2006

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Property and Other Local Taxes	\$6,605,070	\$6,902,911	\$6,319,770	(\$583,141)
Intergovernmental	4,181,000	4,480,976	5,064,117	583,141
Tuition and Fees	90,000	104,240	104,240	0
Interest	100,000	214,135	222,028	7,893
Rent	20,000	37,801	37,801	0
Gifts and Donations	500	2,286	2,286	0
Payment in Lieu of Taxes	25,000	39,226	41,046	1,820
Miscellaneous	12,000	40,096	40,096	0
Total Revenues	11,033,570	11,821,671	11,831,384	9,713
Expenditures:				
Current:				
Instruction:				
Special	134,614	124,651	124,651	0
Vocational	5,840,022	5,407,779	5,407,779	0
Support Services:				
Pupils	905,573	838,548	838,548	0
Instructional Staff	285,105	264,003	264,003	0
Board of Education	17,958	16,629	16,629	0
Administration	1,009,207	934,512	934,512	0
Fiscal	488,737	452,564	452,564	0
Business	391	362	362	0
Operation and Maintenance of Plant	1,002,742	928,525	928,520	5
Pupil Transportation	48,310	44,734	44,734	0
Central	473,929	438,852	438,853	(1)
Operation of Non-				
Instructional Services	9,477	8,776	8,776	0
Extracurricular Activities	72,118	66,780	66,780	0
Capital Outlay	284,858	263,773	263,773	0
Total Expenditures	10,573,041	9,790,488	9,790,484	4
Excess of Revenues Over Expenditures	460,529	2,031,183	2,040,900	9,717
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	500	25	25	0
Refund of Prior Year Expenditures	1,100	109,890	109,890	0
Advances In	175,000	186,557	186,557	0
Advances Out	(175,000)	(197,257)	(197,257)	0
Transfers In	0	33,085	33,085	0
Transfers Out	(545,000)	(1,190,201)	(1,190,201)	0
Total Other Financing Sources (Uses)	(543,400)	(1,057,901)	(1,057,901)	0
Net Change in Fund Balance	(82,871)	973,282	982,999	9,717
Fund Balances at Beginning of Year	3,413,733	3,413,733	3,413,733	0
Prior Year Encumbrances Appropriated	255,718	255,718	255,718	0
Fund Balances at End of Year	\$3,586,580	\$4,642,733	\$4,652,450	\$9,717

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual -
Adult Education Fund
For the Year Ended June 30, 2006

	Adult Education			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Intergovernmental	\$293,200	\$327,917	\$327,917	\$0
Tuition and Fees	1,307,874	828,245	840,189	11,944
Rent	20,000	0	0	0
Gifts and Donations	15,000	270	540	270
Miscellaneous	0	2,001	2,001	0
Total Revenues	1,636,074	1,158,433	1,170,647	12,214
Expenditures:				
Current:				
Instruction:				
Vocational	246,170	217,280	217,280	0
Adult/Continuing	51,123	45,123	45,123	0
Support Services:				
Pupils	77,642	68,530	68,530	0
Instructional Staff	5,269	4,651	4,651	0
Administration	343,059	302,798	302,798	0
Central	809,396	714,408	714,408	0
Operation of Non- Instructional Services	406	358	358	0
Total Expenditures	1,533,065	1,353,148	1,353,148	0
Excess of Revenues Over (Under) Expenditures	103,009	(194,715)	(182,501)	12,214
Other Financing Sources (Uses):				
Advances In	0	76,850	76,850	0
Advances Out	0	(76,850)	(76,850)	0
Transfers In	130,000	198,225	198,225	0
Transfers Out	(1,000)	(73,309)	(73,309)	0
Total Other Financing Sources (Uses)	129,000	124,916	124,916	0
Net Change in Fund Balance	232,009	(69,799)	(57,585)	12,214
Fund Balances at Beginning of Year	338,399	338,399	338,399	0
Prior Year Encumbrances Appropriated	32,051	32,051	32,051	0
Fund Balances at End of Year	\$602,459	\$300,651	\$312,865	\$12,214

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Customer Service Fund	Governmental Internal Service Fund
<u>Assets</u>		
<i>Current Assets</i>		
Equity in Pooled Cash and Cash Equivalents	\$145,599	\$91
Receivables:		
Accounts	1,682	0
Total Current Assets	147,281	91
<i>Noncurrent Assets</i>		
Capital Assets (net of accumulated depreciation)	9,940	0
Total Assets	157,221	91
<u>Liabilities</u>		
<i>Current Liabilities</i>		
Payables:		
Accounts	37	0
Interfund	150,483	0
Total Current Liabilities	150,520	0
<u>Net Assets</u>		
Invested in capital assets, net of related debt	9,940	0
Unrestricted	(3,239)	91
Total Net Assets	\$6,701	\$91

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Customer Service Fund	Governmental Internal Service Fund
	<u> </u>	<u> </u>
<u>Operating Revenues:</u>		
Charges for Services	\$121,555	\$0
Sales	1,682	0
	<u> </u>	<u> </u>
Total Operating Revenues	123,237	0
	<u> </u>	<u> </u>
<u>Operating Expenses:</u>		
Salaries	1,969	0
Fringe Benefits	6,411	0
Purchased Services	24,992	0
Materials and Supplies	188,185	0
Depreciation	1,407	0
	<u> </u>	<u> </u>
Total Operating Expenses	222,964	0
	<u> </u>	<u> </u>
Change in Net Assets	(99,727)	0
Net Assets -		
Beginning of Year (Deficit)	106,428	91
	<u> </u>	<u> </u>
Net Assets - End of Year	<u>\$6,701</u>	<u>\$91</u>

See accompanying notes to the basic financial statements

Warren County Vocational School District
Warren County, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Customer Service Fund	Governmental Internal Service Fund
<u>Decrease in Cash and Cash Equivalents:</u>		
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Customers	\$121,555	\$0
Cash Payments to Suppliers for Goods and Services	(215,929)	0
Cash Payments to Employees for Services	(1,969)	0
Cash Payments for Employee Benefits	(6,411)	0
	(102,754)	0
<i>Net Cash Used for Operating Activities</i>	(102,754)	0
Net Decrease in Cash and Cash Equivalents	(102,754)	0
Cash and Cash Equivalents at Beginning of Year	248,353	91
	145,599	91
Cash and Cash Equivalents at End of Year	145,599	91
 <u>Reconciliation of Operating Loss to Net</u>		
<u>Cash Used for Operating Activities:</u>		
Operating Loss	(99,727)	0
 <u>Adjustments to Reconcile Operating Loss</u>		
<u>to Net Cash Used for Operating Activities:</u>		
Depreciation	1,407	0
<u>Changes in Assets and Liabilities:</u>		
Decrease in Accounts Receivable	(1,682)	0
Increase in Accounts Payable	(2,752)	0
	(3,027)	0
Total Adjustments	(3,027)	0
Net Cash Used for Operating Activities	(\$102,754)	\$0

See accompanying notes to the basic financial statements

*Warren County Vocational School District
Warren County, Ohio
Statement of Fiduciary Assets and Liabilities -
Fiduciary Funds
June 30, 2006*

	<u>Agency</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$45,113</u>
<u>Liabilities</u>	
Due to Students	<u>45,113</u>
Total Liabilities	<u>\$45,113</u>

See accompanying notes to the basic financial statements

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Warren County Vocational School District (the "School District") is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board of Education. The Board of Education is not directly elected. The Board of Education is comprised of members of other elected boards who, by charter, also serve as board members of the Warren County Vocational School District. None of the school districts that appoint Board members are financially accountable for the School District nor do any appoint a voting majority of the Board.

The School District employs 79 certified and 27 classified staff members who serve approximately 1,032 secondary students and 8,418 adult students. A vocational school exposes high school and adult students to academic preparation and job training which leads to employment and/or further education upon graduation from high school.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, adult education, preschool 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 organizations' 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 organizations; 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. The School District has no component units.

The School District is associated with three organizations, two jointly governed organizations and one insurance purchasing pool. These organizations are the Southwest Ohio Computer Association, the Jewell Education Foundation, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan. These organizations are discussed in Notes 16 and 17.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

A. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise fund are reported as separate columns in the fund financial statements.

B. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the District.

Fund Accounting

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

Governmental Funds

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *adult education fund* accounts for transactions made in connection with adult education classes. Receipts include, but are not limited to, tuition from residents and students and reimbursements from the State Department of Education.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District reports the following major proprietary fund:

The *customer service fund* accounts for transactions made in connection with goods and services provide by the School District. As an example, this fund is used to account for receipts and purchases made in connection, but not limited to, culinary training, landscape services and aviation.

Additionally, the District reports the following fund types:

Internal Service Fund accounts for the financing of the self-insured benefits plan provided by the District to the employees on a cost reimbursement basis. This fund is considering inactive by the School District but still maintains a minimum cash balance. The School District will evaluate and eliminate the remaining cash balance in future years.

Fiduciary Agency Funds reporting focuses on net assets and changes in net assets. The District maintains two fiduciary funds, agency funds known as the Pell Grant and Student Activities Funds. The Pell Grant fund accounts for grant proceeds and disbursement to various students within the District. The Student Activities fund was established to account for revenues generated by student managed activities. The District's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions (although no such grants or contributions were received for the year ending June 30, 2006). Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the customer service and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service fund include the cost of sales, administration and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

C. Budgetary Data

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 fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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 expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed 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 Warren 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 revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued during fiscal year 2006.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level 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. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The School District has chosen to present the budgetary statements in the basic financial statements at the fund and function level even though the legal level of control is at the fund level.

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The final budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

At the close of each 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.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the statement of net assets and fund balance sheets.

During the current fiscal year and at year-end, investments were limited to governmental sponsored enterprise securities.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the current fiscal year amounted to \$219,922 with \$32,959 assigned from other funds. The permanent improvement capital projects fund also received interest of \$9,957.

For purpose of the statement of cash flows and for the presentation on the statement of net assets and fund balance sheets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Inventory (Materials and Supplies)

Inventories are valued at lower of cost (first-in, first-out method) or market and are determined by physical count. Inventories consist of donated food, purchased food and school supplied held for resale and are expensed when used.

F. Capital Assets

Capital assets, which include property, plant, equipment, and vehicles, are reported on the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual amounts were not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The School District reviewed possible infrastructure assets (roads, bridges, culverts, etc.) which could be required to be capitalized. The School District has no infrastructure assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	50
Vehicles and Equipment	5-15

G. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from transaction-like activities between a government's various funds are classified as "interfund receivables/payables." These transactions are eliminated in the statement of net assets and the balances are eliminated in the governmental activities column of the statement of net assets.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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

For governmental funds, the current portion of unpaid compensated absences is the amount normally due for payment during the current year. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The entire liability is reported on the government-wide statement of net assets.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. Payments made more than sixty days after year-end are considered not to have used current available financial resources. Capital leases payable are reported as a liability on the statement of net assets. Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Interfund Activity

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

K. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally separated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure in the governmental fund balance sheet. Fund balances represent the difference between assets and liabilities in the Balance Sheet - Governmental Funds, while unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances and property taxes.

L. Net Assets

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

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set aside by the School District to create a reserve for budget stabilization. See Note 18 for calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

N. Deferred Revenues

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

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

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

O. Exchange/Non-Exchange Transactions

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

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

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Estimates

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

Q. Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$1,245,073) difference are as follows:

Capital Lease Payable	(\$746,282)
Compensated Absences	<u>(498,791)</u>
Net Adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>(\$1,245,073)</u></u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.” The details of \$4,931,485 difference are as follows:

Capital Assets	\$13,337,084
Accumulated Depreciation	<u>(8,405,599)</u>
Net Adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$4,931,485</u></u>

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

An element of that reconciliation states that “Repayment of long-term obligations is reported as an expenditure in government funds, the repayment reduces long-term liabilities in the statement of net assets.” The details of this \$217,928 are as follows:

Change in Benefit Balances	\$30,888
Principal Reduction on Leases	187,040
Net Adjustment - current financial resources focus to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$217,928</u>

Another element of that reconciliation states that “Capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$135,933 are as follows:

Current capital additions	\$748,907
Depreciation Expense	<u>(612,974)</u>
Net Adjustment - capital assets to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$135,933</u>

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

Budgetary Basis of Accounting:

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

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

The major differences between the budget basis and GAAP basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- C. Encumbrances are treated as expenditure/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
- D. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for major funds with required budgetary supplemental information. Only the general and major special revenue funds are reported for comparison.

Net Change in Fund Balance
Major Funds

	General Fund	Adult Education Fund
	Fund	Fund
GAAP Basis	\$832,366	\$4,541
Adjustments:		
Revenue Accrual	705,275	(1,458)
Expenditure Accrual	(140,042)	(22,820)
Advances	(10,700)	0
Encumbrances	(403,900)	(37,848)
Budget Basis	\$982,999	(\$57,585)

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 4 - ACCOUNTABILITY

At June 30, 2006 the following fund had deficit fund balances:

<u>Nonmajor Funds:</u>	<u>Amount</u>
Food Service Fund	\$11,003
Uniform School Supplies Fund	7,777
Educational Management Information Systems Fund	21
Career Education Fund	2,571
Early Entry Fund	745
Vocational Education Fund	411

The deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit provides operating transfers when cash is required, not when accruals occur. The School District is monitoring the sales in the food service fund to see if an increase in charges is necessary.

NOTE 5 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 5 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS (continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio).
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

At June 30, 2006, the School District's internal service fund had a balance of \$91 maintained in a separate governmental type fund.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$4,393,158 of the School District's bank balance of \$5,216,906 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 5 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS (continued)

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

Investments

As of June 30, 2006, the School District had the following investments.

	Carrying and Fair Value	Average Maturity (in years)
Federal National Mortgage Association Note	\$1,187,060	3.17
Federal Home Loan Bank Notes	1,073,391	2.25
Total Investments	<u>\$2,260,451</u>	

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District limits their investments to securities in Federal National Mortgage Association Notes and Federal Home Loan Bank Notes. Below are the credit ratings of the School District's investments:

Security	Rating Agency	
	Moody's	Standard & Poor's
Federal National Mortgage Association Notes	Aaa	AAA
Federal Home Loan Bank Notes	Aaa	AAA

Custodial 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 Federal National Mortgage Association Notes and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 5 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS (continued)

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Federal National Mortgage Association Notes represents 52.52% of the School District's total investments and the investment in Federal Home Loan Bank Notes represents 47.48% of the School District's total investments.

NOTE 6- PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible personal (business) property. The assessed value, by property classification, upon which taxes collected in 2006 were based, are as follows:

	2005 First- Half Collections		2006 Second- Half Collection	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$2,682,551,380	88.23%	\$3,022,653,990	90.89%
Public Utility Personal	110,602,170	3.64	111,987,500	3.37
Tangible Personal Property	247,091,390	8.13	190,998,838	5.74
Total Assessed Value	<u>\$3,040,244,940</u>	<u>100.00%</u>	<u>\$3,325,640,328</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$4.50		\$4.50	

Property taxes are levied and assessed on a calendar year basis. First half tax collections 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 District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1, and are collected with real property taxes. Assessed values for property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment was due by February 27. If paid semi-annually, the first payment (at least one-half of amount billed) was due February 27, with the remainder due on July 24.

The County Auditor remits portions of the taxes collected with periodic settlements of Real and Public Utility property taxes in February and August and Tangible Personal Property taxes in June and October to all taxing districts.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 6- PROPERTY TAXES (continued)

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, accounts (tuition and student fees), interfund, intergovernmental (grants and rentals), charges for services, and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of intergovernmental receivables follows:

<u>Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds:	
Special Revenue Funds:	
Food Service Fund	\$4,734
Adult Basic Education Grant	12,000
Total Nonmajor Governmental Funds	<u>16,734</u>
Total	<u><u>\$16,734</u></u>

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 07/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/06</u>
Governmental Activities				
Capital Assets, not depreciated				
Land	\$456,000	\$0	\$0	\$456,000
Construction in Progress	680,782	0	680,782	0
Capital Assets, being depreciated				
Land Improvements	105,514	116,078	0	221,592
Buildings and Improvements	6,960,718	1,007,055	0	7,967,773
Furniture and Equipment	3,981,039	248,966	0	4,230,005
Vehicles	404,124	57,590	0	461,714
Total at Historical Cost	<u>12,588,177</u>	<u>1,429,689</u>	<u>680,782</u>	<u>13,337,084</u>
Less Accumulated Depreciation	<u>(7,792,625)</u>	<u>(612,974)</u>	<u>0</u>	<u>(8,405,599)</u>
Governmental Activities Capital Assets, Net	<u><u>\$4,795,552</u></u>	<u><u>\$816,715</u></u>	<u><u>\$680,782</u></u>	<u><u>\$4,931,485</u></u>

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 8 - CAPITAL ASSETS (continued)

Business-Type Activities	Balance 07/01/05	Increases	Decreases	Balance 6/30/06
Capital Assets, being depreciated				
Buildings and Improvements	\$8,530	\$0	\$0	\$8,530
Furniture and Equipment	4,901	0	0	4,901
Less Accumulated Depreciation	(2,084)	(1,407)	0	(3,491)
Business-Type Activities				
Capital Assets, Net	<u>\$11,347</u>	<u>(\$1,407)</u>	<u>\$0</u>	<u>\$9,940</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Instruction:	
Vocational	\$301,930
Adult Education	2,366
Support Services:	
Pupils	15,807
Administration	15,953
Fiscal	2,582
Business	11,521
Operation and Maintenance of Plant	23,841
Pupil Transportation	37,313
Central	199,118
Non-operational Instruction	2,543
Total Depreciation Expense	<u>\$612,974</u>

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year 2006, the School District contracted with Ohio School Plan for general liability insurance with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate. Vehicles are also covered under a business policy with Ohio School Plan which carries a \$1,000 deductible and a \$2,000,000 limit on any accident.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 9 - RISK MANAGEMENT (continued)

For fiscal year 2006, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), and insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement provides administrative, cost control and actuarial services to the GRP.

The School District provided an option for medical/surgical benefits (PPO) administered by Anthem for health care coverage. The School District paid \$710.62 for family coverage or \$284.09 for individual coverage per month and \$809.40 for family coverage, both of which represents eighty-five percent of the premium required. The District also provides dental, vision and life coverage to the employees at a cost of \$90.91 through December 2005 and \$92.81 after December 31 for family coverage and \$39.36 through December 31 and \$41.47 after December 31 for individual coverage.

The District completed the internal service fund in 2004 and therefore there is no claims liability reported in the internal service fund and governmental activities column on the statement of net assets at June 30, 2006; however, the fund still maintains a minimum cash balance of \$91.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$124,313, \$127,931, and \$106,174, respectively; 91 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

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

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$778,791, \$756,373, and \$727,281, respectively; 92 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$18,901 made by the School District and \$26,161 made by the plan members.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$57,388 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$63,618.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

NOTE 12 - COMPENSATED ABSENCES

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days. Upon retirement, payment shall be made for accrued but unused sick days on the basis of 25 percent of member's actual accumulated sick leave days to a maximum of 56 days.

NOTE 13 - CAPITALIZED LEASES – LESSEE DISCLOSURE

During fiscal year 2005, the School District entered into capitalized leases for the acquisition of CAT equipment for \$400,000 and roof replacement \$600,000. The terms of the one agreement provides an option to purchase the equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments in fiscal year 2006 totaled \$187,040 and interest payments of \$35,270.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 13 - CAPITALIZED LEASES – LESSEE DISCLOSURE (continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2007	\$222,310
2008	222,311
2009	222,311
2010	<u>140,485</u>
Total	807,417
Less: Amount Representing Interest	<u>(61,135)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$746,282</u></u>

Fiscal Year Ending June 30,	<u>Capital Leases Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$194,715	\$27,595	\$222,310
2008	202,706	19,605	222,311
2009	211,025	11,286	222,311
2010	<u>137,836</u>	<u>2,649</u>	<u>140,485</u>
Totals	<u><u>\$746,282</u></u>	<u><u>\$140,485</u></u>	<u><u>\$807,417</u></u>

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 14 - LONG-TERM LIABILITIES

The changes in the School District's long-term obligations (non-current liabilities) during the year consist of the following:

	Obligation Outstanding June 30, 2005	Additions	Deletions	Obligation Outstanding June 30, 2006	Amounts Due in One Year
Governmental Activities					
Compensated Absences	\$529,679	\$427,898	\$458,786	\$498,791	\$144,987
Capital Leases Payable	933,322	0	187,040	746,282	194,715
Total Governmental	<u>\$1,463,001</u>	<u>\$427,989</u>	<u>\$645,826</u>	<u>\$1,245,073</u>	<u>\$339,702</u>

The School District's overall legal debt margin was \$299,307,630 with an energy conservation debt margin of \$29,930,763 and an unvoted debt margin of \$3,325,640 at June 30, 2006.

Compensated absences will be paid from the fund from which the person is paid. Capital leases will be paid from the General fund.

NOTE 15 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006, consist of the following individual receivables and payables and operating transfers in the governmental and proprietary fund balance sheets (such amounts are removed from consolidated columns in the statement of net assets):

	Interfund Receivable	Interfund Payable	Transfers In	Transfers Out
General Fund	\$169,540	\$0	\$0	\$1,157,116
Adult Education	0	19,991	124,916	0
Customer Service	0	150,483	0	0
Nonmajor Funds:				
Special Revenue	0	12,224	32,200	0
Capital Projects	13,158	0	1,000,000	0
Total All Funds	<u>\$182,698</u>	<u>\$182,698</u>	<u>\$1,157,116</u>	<u>\$1,157,116</u>

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 15 - INTERFUND TRANSACTIONS (continued)

The interfund payables are expected to be repaid within one year. The School District is currently evaluating the user charges in adult education and customer service major funds to bring revenue generation in line with expenditures/expenses. The transfers are routine in nature with the majority of the money being transferred to the nonmajor permanent improvement capital projects fund for the School District's share of the roof replacement cost.

NOTE 16 - JOINTLY GOVERNED ORGANIZATION

The School District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. 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 SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The School District paid \$28,762 for services provided during the fiscal year. Financial information can be obtained from the fiscal agent, Butler County JVS, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

The School District is a participant in the Jewell Education Foundation, which is a jointly governed educational foundation established to benefit the school districts in Warren County. The Foundation was created to promote and assist in funding through soliciting grants and charitable contributions for distributions to member educational institutions of participating school districts. The governing board is made up of the Warren County Vocational School District superintendent, one member of the 1999 Warren County Vocational School District Board of Education, not on the current board, and one member submitted by each participating school district. The district made no financial contribution to the Foundation. Financial information can be obtained from the Director of Planned Giving, Rick Wood, at P. O. Box 854, Lebanon, Ohio 45036.

NOTE 17 - INSURANCE PURCHASING POOL

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen-member committee consisting of various Educational Purchasing Council representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

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

NOTE 18 - STATUTORY RESERVES

As stated in H.B. 412 the District is required to maintain through reserves; one for textbooks; one for capital acquisitions; and one for budget stabilization. A reserve represents resources whose use is limited because of contractual or statutory restrictions.

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Set-aside Carryover Balance as of June 30, 2005	(\$2,168,580)	\$0	\$30,312	(\$2,138,268)
Current Year Set-aside Requirement	94,912	94,912	0	189,824
Offsets	0	(1,000,000)	0	(1,000,000)
Qualifying Disbursements	(474,105)	(50,466)	(30,312)	(554,883)
Total	(2,547,773)	(955,554)	0	(\$3,503,327)
Set-aside Carryover Balance as of June 30, 2006	(2,547,773)	\$0	\$0	

Although the School District had qualifying disbursements during the year that reduced the capital acquisition and textbook set-aside amounts to below zero, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 19 - 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.

Litigation:

As of June 30, 2006, the School District did not have any pending litigation.



Mary Taylor, CPA

Auditor of State

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

Warren County Vocational School District
Warren County
3529 N. State Route 48
Lebanon, Ohio 45036

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County Vocational School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 29, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

Warren County Vocational School District
Warren County
Independent Accountants' Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters as Required by *Government Auditing Standards*
Page 2

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

Mary Taylor, CPA
Auditor of State

March 29, 2007



Mary Taylor, CPA
Auditor of State

WARREN COUNTY VOCATIONAL SCHOOL DISTRICT

WARREN 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
APRIL 12, 2007**