

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Strasburg-Franklin Local School District  
Tuscarawas County  
140 North Bodmer Avenue  
Strasburg, Ohio 44680

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Strasburg-Franklin Local School District, Tuscarawas 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, each major fund, and the aggregate remaining fund information of Strasburg-Franklin Local School District, Tuscarawas County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund 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 April 23, 2008, 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 and is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

April 23, 2008

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$509,852 which represents a 21.16% increase from 2005.
- General revenues accounted for \$5,233,773 in revenue or 86.06% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions, and capital grants and contributions accounted for \$847,995 or 13.94% of total revenues of \$6,081,768.
- The District had \$5,571,916 in expenses related to governmental activities; \$847,995 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,233,773 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, and building fund. The general fund had \$4,596,997 in revenues and \$4,665,641 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$68,644 from \$289,708 to \$221,064.
- The District's debt service fund had \$518,142 in revenues and \$7,322,816 in expenditures. During fiscal year 2006, the debt service fund's fund balance decreased \$6,804,674 from \$7,106,222 to \$301,548.
- The District's building fund had \$235,203 in revenues and \$1,309,618 in expenditures. During fiscal year 2006, the building fund's fund balance decreased \$1,074,415 from \$6,970,758 to \$5,896,343.

**Using these Basic Financial Statements**

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

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

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-47 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Assets</u></b>		
Current and other assets	\$ 9,964,810	\$ 17,746,182
Capital assets	<u>2,712,757</u>	<u>1,472,832</u>
Total assets	<u>12,677,567</u>	<u>19,219,014</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,655,727	2,787,155
Long-term liabilities	<u>7,102,926</u>	<u>14,022,797</u>
Total liabilities	<u>9,758,653</u>	<u>16,809,952</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,075,543	1,472,832
Restricted	1,636,981	1,100,869
Unrestricted (deficit)	<u>206,390</u>	<u>(164,639)</u>
Total net assets	<u>\$ 2,918,914</u>	<u>\$ 2,409,062</u>

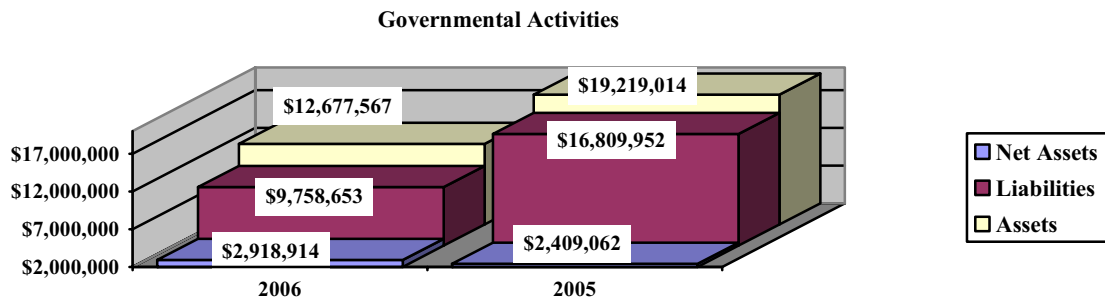
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$2,918,914. Of this total, \$206,390 is unrestricted in use.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

At year-end, capital assets represented 21.40% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and construction-in-progress. The amount invested in capital assets, net of related debt at June 30, 2007, was \$1,075,543. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,636,981, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$206,390 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2006 and 2005.

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 442,120	\$ 438,244
Operating grants and contributions	390,383	287,149
Capital grants and contributions	15,492	-
General revenues:		
Property taxes	2,332,195	1,829,222
Grants and entitlements	2,522,801	2,581,786
Investment earnings	351,758	237,642
Other	<u>27,019</u>	<u>19,096</u>
 Total revenues	 <u>\$ 6,081,768</u>	 <u>\$ 5,393,139</u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 2,430,827	\$ 2,372,375
Special	341,526	372,095
Vocational	78,143	73,382
Other	177,685	178,574
Support services:		
Pupil	201,979	200,546
Instructional staff	250,480	240,448
Board of education	46,544	44,882
Administration	461,973	409,044
Fiscal	192,234	141,814
Operations and maintenance	354,931	303,938
Pupil transportation	235,363	229,923
Central	48,169	53,396
Food service operations	195,296	215,603
Extracurricular activities	226,297	217,377
Interest and fiscal charges	<u>330,469</u>	<u>130,153</u>
Total expenses	<u>5,571,916</u>	<u>5,183,550</u>
Change in net assets	509,852	209,589
Net assets at beginning of year	<u>2,409,062</u>	<u>2,199,473</u>
Net assets at end of year	<u><u>\$ 2,918,914</u></u>	<u><u>\$ 2,409,062</u></u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$509,852. Total governmental expenses of \$5,571,916 were offset by program revenues of \$847,995 and general revenues of \$5,233,773. Program revenues supported 15.22% of the total governmental expenses.

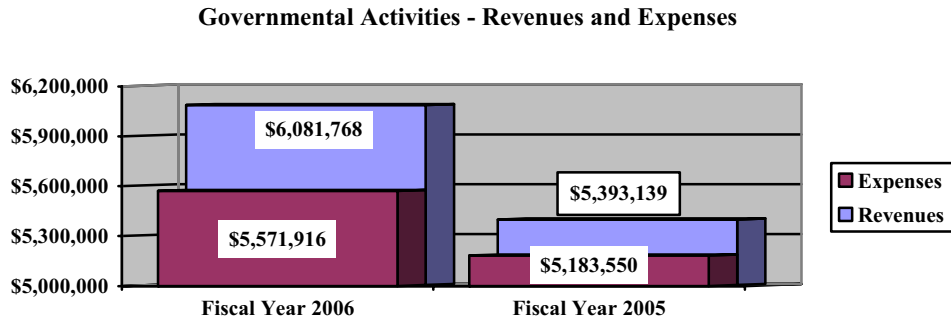
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 86.06% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,028,181 or 54.35% of total governmental expenses for fiscal 2006.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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



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

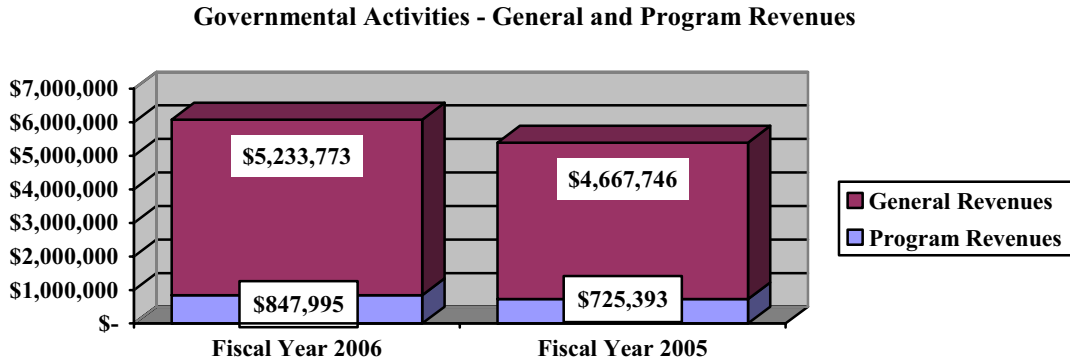
	<b>Governmental Activities</b>			
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 2,430,827	\$ 2,184,421	\$ 2,372,375	\$ 2,147,211
Special	341,526	117,940	372,095	264,944
Vocational	78,143	78,143	73,382	73,382
Other	177,685	177,685	178,574	178,574
Support services:				
Pupil	201,979	184,940	200,546	189,528
Instructional staff	250,480	186,053	240,448	191,082
Board of education	46,544	46,544	44,882	44,882
Administration	461,973	441,955	409,044	393,864
Fiscal	192,234	188,394	141,814	139,899
Operations and maintenance	354,931	354,931	303,938	303,938
Pupil transportation	235,363	235,363	229,923	207,477
Central	48,169	42,169	53,396	47,396
Food service operations	195,296	6,009	215,603	15,663
Extracurricular activities	226,297	148,905	217,377	130,164
Interest and fiscal charges	330,469	330,469	130,153	130,153
<b>Total expenses</b>	<u>\$ 5,571,916</u>	<u>\$ 4,723,921</u>	<u>\$ 5,183,550</u>	<u>\$ 4,458,157</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 84.48% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.78%. The District's taxpayers and grantors, as a whole, are by far the primary support for District's students.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$7,052,156, which is lower than last year's total of \$14,873,230. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ 221,064	\$ 289,708	\$ (68,644)	(23.69) %
Debt Service	301,548	7,106,222	(6,804,674)	(95.76) %
Building	5,896,343	6,970,758	(1,074,415)	(15.41) %
Other Governmental	633,201	506,542	126,659	25.00 %
Total	\$ 7,052,156	\$ 14,873,230	\$ (7,821,074)	(52.58) %

**General Fund**

The District's general fund balance decreased \$68,644. The decrease in fund balance can be attributed to several items related to decreasing revenues compared to increased expenditures. Expenditures exceed revenues for fiscal year 2006 by \$43,644. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,767,289	\$ 1,479,088	\$ 288,201	19.49 %
Tuition	178,834	173,498	5,336	3.08 %
Earnings on investments	67,987	25,134	42,853	170.50 %
Intergovernmental	2,555,868	2,544,415	11,453	0.45 %
Other revenues	<u>27,019</u>	<u>19,096</u>	<u>7,923</u>	41.49 %
Total	<u>\$ 4,596,997</u>	<u>\$ 4,241,231</u>	<u>\$ 355,766</u>	8.39 %
<b><u>Expenditures</u></b>				
Instruction	\$ 2,900,405	\$ 2,806,598	\$ 93,807	3.34 %
Support services	1,622,477	1,528,295	94,182	6.16 %
Extracurricular activities	<u>117,759</u>	<u>113,081</u>	<u>4,678</u>	4.14 %
Total	<u>\$ 4,640,641</u>	<u>\$ 4,447,974</u>	<u>\$ 192,667</u>	4.33 %

***Debt Service Fund***

The debt service fund had \$518,142 in revenues and \$7,322,816 in expenditures. During fiscal year 2006, the debt service fund's fund balance decreased \$6,804,674 from \$7,106,222 to \$301,548.

***Building Fund***

The building fund had \$235,203 in revenues and \$1,309,618 in expenditures. During fiscal year 2006, the building fund's fund balance decreased \$1,074,415 from \$6,970,758 to \$5,896,343.

***General Fund Budgeting Highlights***

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

For the general fund, original and final budgeted revenues and other financing sources were \$4,423,000. Actual revenues and other financing sources for fiscal 2006 was \$4,503,671. This represents an \$80,671 increase from final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$5,170,500 and \$5,152,500 respectively. The actual budget basis expenditures for fiscal year 2006 totaled \$4,716,575, which was \$435,925 less than the final budget appropriations.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$2,712,757 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). This entire amount is reported in governmental activities.

The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 870,240	\$ 870,240
Land improvements	252,512	278,994
Building and improvements	177,093	191,042
Furniture and equipment	33,007	36,447
Vehicles	70,287	96,109
CIP	1,309,618	-
<b>Total</b>	<b>\$ 2,712,757</b>	<b>\$ 1,472,832</b>

The overall increase in capital assets of \$1,239,925 is due to capitalizing construction in progress at June 30, 2006, related to constructing the new elementary school.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2006 the District had \$6,730,854 in general obligation bonds outstanding. The issue is comprised of current interest bonds and capital appreciation bonds. Of this total, \$160,000 is due within one year and \$6,570,854 is due within greater than one year. The District also retired bond anticipation notes totaling \$6,800,000 during the fiscal year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2006
Current interest bonds - 2006	\$ 6,560,000
Capital appreciation bonds - 2006	170,854
<b>Total</b>	<b>\$ 6,730,854</b>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

The District issued the 2005 series general obligation bonds on April 26, 2005, to provide funds for purpose of constructing a new elementary school and improving the site thereof. The current interest bonds mature December 1, 2032 and the capital appreciation bonds mature December 1, 2010 and December 1, 2011.

At June 30, 2006, the District's overall legal debt margin was \$852,415, and an unvoted debt margin of \$79,010.

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

**Current Financial Related Activities**

The District is in the first phase of a \$17,000,000 Ohio School Facilities project to construct a new K-12 building. The first phase will see the completion of the K-3 portion of the project with the construction of K-3 classrooms, an elementary gymnasium, and the cafeteria. The first phase is being funded by a \$6,800,000 bond issue passed by District voters in November 2004. The second phase of the project will commence when state funds of \$10,200,000 become available. During the second phase the 4-12 portion of the project will be completed along with the high school gymnasium, auditorium, several locally-funded initiatives, and various office spaces.

A major challenge facing the District at this juncture involves the reduction of funds resulting from the passage of HB66. The District will not realize an increase in state foundation funds for fiscal years 2006 and 2007, thus significantly impacting revenue to expenditure ratios. Despite careful and prudent planning by the Board of Education, HB66 legislation has made it difficult for the District to avoid deficit spending. The District will ask the voters to pass a five year dollar incremental operating levy on November 7, 2006. The last operating levy asked for and passed by the voters occurred in 1991.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Treasurer at Strasburg-Franklin Local School District, 140 N. Bodmer Avenue, Strasburg, Ohio 44680-1122.



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 7,631,142
Receivables:	
Taxes . . . . .	2,072,055
Accounts . . . . .	146
Intergovernmental . . . . .	26,573
Accrued interest . . . . .	92,630
Prepayments . . . . .	28,098
Materials and supplies inventory . . . . .	3,221
Unamortized bond issue costs . . . . .	110,945
Capital assets:	
Land . . . . .	870,240
Construction in progress . . . . .	1,309,618
Depreciable capital assets, net . . . . .	532,899
Capital assets, net. . . . .	2,712,757
 Total assets. . . . .	 12,677,567
<b>Liabilities:</b>	
Accounts payable. . . . .	77,414
Contracts payable. . . . .	315,489
Accrued wages and benefits . . . . .	378,210
Pension obligation payable. . . . .	95,654
Intergovernmental payable . . . . .	16,797
Deferred revenue . . . . .	1,756,527
Accrued interest payable . . . . .	15,636
Long-term liabilities:	
Due within one year. . . . .	196,277
Due within more than one year . . . . .	6,906,649
 Total liabilities . . . . .	 9,758,653
<b>Net Assets:</b>	
Invested in capital assets, net of related debt . . . . .	1,075,543
Restricted for:	
Capital projects . . . . .	1,192,961
Debt service. . . . .	296,364
Classroom facilities maintenance . . . . .	57,785
State funded programs . . . . .	6,843
Federally funded programs . . . . .	29,011
Student activities . . . . .	38,867
Public school support . . . . .	7,237
Other purposes . . . . .	7,913
Unrestricted. . . . .	206,390
 Total net assets . . . . .	 \$ 2,918,914

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 2,430,827	\$ 203,011	\$ 27,903	\$ 15,492	\$ (2,184,421)
Special . . . . .	341,526	-	223,586	-	(117,940)
Vocational . . . . .	78,143	-	-	-	(78,143)
Other . . . . .	177,685	-	-	-	(177,685)
Support services:					
Pupil . . . . .	201,979	-	17,039	-	(184,940)
Instructional staff . . . . .	250,480	-	64,427	-	(186,053)
Board of education . . . . .	46,544	-	-	-	(46,544)
Administration . . . . .	461,973	15,018	5,000	-	(441,955)
Fiscal . . . . .	192,234	-	3,840	-	(188,394)
Operations and maintenance . . . . .	354,931	-	-	-	(354,931)
Pupil transportation . . . . .	235,363	-	-	-	(235,363)
Central . . . . .	48,169	-	6,000	-	(42,169)
Food service operations . . . . .	195,296	146,699	42,588	-	(6,009)
Extracurricular activities . . . . .	226,297	77,392	-	-	(148,905)
Interest and fiscal charges . . . . .	330,469	-	-	-	(330,469)
Total governmental activities . . . . .	<u>\$ 5,571,916</u>	<u>\$ 442,120</u>	<u>\$ 390,383</u>	<u>\$ 15,492</u>	<u>(4,723,921)</u>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					1,760,708
Special revenue . . . . .					33,899
Debt service . . . . .					462,264
Capital projects . . . . .					75,324
Grants and entitlements not restricted to specific programs . . . . .					2,522,801
Investment earnings . . . . .					351,758
Miscellaneous . . . . .					27,019
Total general revenues . . . . .					<u>5,233,773</u>
Change in net assets . . . . .					509,852
Net assets at beginning of year . . . . .					<u>2,409,062</u>
Net assets at end of year . . . . .					<u>\$ 2,918,914</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 555,006	\$ 246,562	\$ 6,175,287	\$ 646,374	\$ 7,623,229
Receivables:					
Taxes . . . . .	1,559,228	416,552	-	96,275	2,072,055
Accounts . . . . .	146	-	-	-	146
Intergovernmental . . . . .	-	-	-	26,573	26,573
Accrued interest . . . . .	-	-	92,630	-	92,630
Interfund receivable . . . . .	5,000	-	-	-	5,000
Prepayments . . . . .	22,106	-	5,992	-	28,098
Materials and supplies inventory . . . . .	-	-	-	3,221	3,221
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	7,913	-	-	-	7,913
Total assets . . . . .	<u>\$ 2,149,399</u>	<u>\$ 663,114</u>	<u>\$ 6,273,909</u>	<u>\$ 772,443</u>	<u>\$ 9,858,865</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 67,865	\$ -	\$ -	\$ 9,549	\$ 77,414
Contracts payable . . . . .	-	-	315,489	-	315,489
Accrued wages and benefits . . . . .	359,732	-	-	18,478	378,210
Compensated absences payable . . . . .	25,800	-	-	-	25,800
Pension obligation payable . . . . .	92,192	-	-	3,462	95,654
Intergovernmental payable . . . . .	15,443	-	-	1,354	16,797
Interfund payable . . . . .	-	-	-	5,000	5,000
Deferred revenue . . . . .	1,367,303	361,566	62,077	101,399	1,892,345
Total liabilities . . . . .	<u>1,928,335</u>	<u>361,566</u>	<u>377,566</u>	<u>139,242</u>	<u>2,806,709</u>
<b>Fund Balances:</b>					
Reserved for debt service . . . . .	-	246,562	-	-	246,562
Reserved for encumbrances . . . . .	4,319	-	5,129,912	1,026	5,135,257
Reserved for materials and supplies inventory . . . . .	-	-	-	2,516	2,516
Reserved for prepayments . . . . .	22,106	-	5,992	-	28,098
Reserved for property tax unavailable for appropriation . . . . .	191,925	54,986	-	12,672	259,583
Reserved for school bus purchases . . . . .	7,913	-	-	-	7,913
Unreserved, undesignated, reported in:					
General fund . . . . .	(5,199)	-	-	-	(5,199)
Special revenue funds . . . . .	-	-	-	108,409	108,409
Capital projects funds . . . . .	-	-	760,439	508,578	1,269,017
Total fund balances . . . . .	<u>221,064</u>	<u>301,548</u>	<u>5,896,343</u>	<u>633,201</u>	<u>7,052,156</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,149,399</u>	<u>\$ 663,114</u>	<u>\$ 6,273,909</u>	<u>\$ 772,443</u>	<u>\$ 9,858,865</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

<b>Total governmental fund balances</b>		\$	7,052,156
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,712,757
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	55,945	
Intergovernmental revenue		17,796	
Accrued interest		62,077	
Total			135,818
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(15,636)
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.			110,945
Unamortized premiums on bond issuance is not recognized in the funds.			(114,641)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(231,631)	
General obligation bonds payable		(6,730,854)	
Total			(6,962,485)
<b>Net assets of governmental activities</b>		\$	2,918,914

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 1,767,289	\$ 464,477	\$ -	\$ 109,611	\$ 2,341,377
Tuition . . . . .	178,834	-	-	-	178,834
Earnings on investments . . . . .	67,987	-	235,203	64	303,254
Charges for services . . . . .	-	-	-	146,502	146,502
Extracurricular . . . . .	-	-	-	88,394	88,394
Other local revenues . . . . .	27,019	-	-	37,482	64,501
Intergovernmental - State . . . . .	2,555,868	53,665	-	40,092	2,649,625
Intergovernmental - Federal . . . . .	-	-	-	252,163	252,163
Total revenue . . . . .	<u>4,596,997</u>	<u>518,142</u>	<u>235,203</u>	<u>674,308</u>	<u>6,024,650</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	2,383,330	-	-	61,400	2,444,730
Special . . . . .	262,001	-	-	96,000	358,001
Vocational . . . . .	77,389	-	-	-	77,389
Other . . . . .	177,685	-	-	-	177,685
Support services:					
Pupil . . . . .	178,397	-	-	18,916	197,313
Instructional staff . . . . .	178,065	-	-	71,661	249,726
Board of education . . . . .	45,978	-	-	-	45,978
Administration . . . . .	438,109	-	-	18,400	456,509
Fiscal . . . . .	177,351	8,472	-	7,299	193,122
Operations and maintenance . . . . .	353,754	-	-	6,213	359,967
Pupil transportation . . . . .	208,654	-	-	6,000	214,654
Central . . . . .	42,169	-	-	-	42,169
Food service operations . . . . .	-	-	-	199,477	199,477
Extracurricular activities . . . . .	117,759	-	-	87,283	205,042
Facilities acquisition and construction . . . . .	-	-	1,309,618	-	1,309,618
Debt service:					
Principal retirement . . . . .	-	6,895,000	-	-	6,895,000
Interest and fiscal charges . . . . .	-	419,344	-	-	419,344
Total expenditures . . . . .	<u>4,640,641</u>	<u>7,322,816</u>	<u>1,309,618</u>	<u>572,649</u>	<u>13,845,724</u>
Excess of revenues over (under) expenditures . . . . .	<u>(43,644)</u>	<u>(6,804,674)</u>	<u>(1,074,415)</u>	<u>101,659</u>	<u>(7,821,074)</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	25,000	25,000
Transfers (out) . . . . .	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
Total other financing sources (uses) . . . . .	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances . . . . .	(68,644)	(6,804,674)	(1,074,415)	126,659	(7,821,074)
<b>Fund balances</b>					
at beginning of year . . . . .	289,708	7,106,222	6,970,758	506,542	14,873,230
Fund balances at end of year . . . . .	<u>\$ 221,064</u>	<u>\$ 301,548</u>	<u>\$ 5,896,343</u>	<u>\$ 633,201</u>	<u>\$ 7,052,156</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

<b>Net change in fund balances - total governmental funds</b>	\$	(7,821,074)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 1,313,291	
Current year depreciation	(73,366)	
Total		1,239,925
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		5,904
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(5,714)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(9,182)	
Intergovernmental revenue	17,796	
Accrued interest	48,504	
Total		57,118
Repayment of bond and bond anticipation notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		6,895,000
In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		
Accrued interest	112,427	
Accreted interest on capital appreciation bonds	(23,742)	
Total		88,685
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		50,008
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>509,852</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,738,000	\$ 1,738,000	\$ 1,666,964	\$ (71,036)
Tuition . . . . .	160,000	160,000	178,834	18,834
Earnings on investments . . . . .	29,000	29,000	67,987	38,987
Other local revenues . . . . .	19,000	19,000	26,873	7,873
Intergovernmental - State . . . . .	2,469,855	2,469,855	2,555,868	86,013
Total revenue . . . . .	<u>4,415,855</u>	<u>4,415,855</u>	<u>4,496,526</u>	<u>80,671</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,662,750	2,662,750	2,420,416	242,334
Special . . . . .	276,750	276,750	258,492	18,258
Vocational . . . . .	85,600	85,600	80,301	5,299
Other . . . . .	219,000	219,000	177,685	41,315
Support services:				
Pupil . . . . .	174,450	174,450	176,873	(2,423)
Instructional staff . . . . .	211,200	211,200	182,084	29,116
Board of education . . . . .	37,750	37,750	52,902	(15,152)
Administration . . . . .	494,800	494,800	444,754	50,046
Fiscal . . . . .	203,000	203,000	174,488	28,512
Operations and maintenance . . . . .	379,750	379,750	347,277	32,473
Pupil transportation . . . . .	235,000	217,000	205,538	11,462
Central . . . . .	50,000	50,000	42,628	7,372
Extracurricular activities . . . . .	140,450	140,450	123,137	17,313
Total expenditures . . . . .	<u>5,170,500</u>	<u>5,152,500</u>	<u>4,686,575</u>	<u>465,925</u>
Excess of revenues over (under) expenditures . . . . .	<u>(754,645)</u>	<u>(736,645)</u>	<u>(190,049)</u>	<u>546,596</u>
<b>Other financing uses:</b>				
Transfers (out) . . . . .	-	-	(25,000)	(25,000)
Advances in . . . . .	7,145	7,145	7,145	-
Advances (out) . . . . .	-	-	(5,000)	(5,000)
Total other financing uses . . . . .	<u>7,145</u>	<u>7,145</u>	<u>(22,855)</u>	<u>(30,000)</u>
Net change in fund balance . . . . .	(747,500)	(729,500)	(212,904)	516,596
<b>Fund balance at beginning of year . . . . .</b>	758,024	758,024	758,024	-
<b>Prior year encumbrances appropriated . . . . .</b>	8,019	8,019	8,019	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 18,543</u>	<u>\$ 36,543</u>	<u>\$ 553,139</u>	<u>\$ 516,596</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ 24,925
Investments. . . . .	24,458	-
	<hr/>	<hr/>
Total assets. . . . .	24,458	<u>\$ 24,925</u>
<b>Liabilities:</b>		
Due to students . . . . .	-	\$ 24,925
	<hr/>	<hr/>
Total liabilities . . . . .	-	<u>\$ 24,925</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	24,458	
	<hr/>	
Total net assets . . . . .	<u>\$ 24,458</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 657
Total additions. . . . .	657
<b>Deductions:</b>	
Scholarships awarded . . . . .	1,000
Change in net assets . . . . .	(343)
<b>Net assets at beginning of year . . . . .</b>	<b>24,801</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 24,458</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

There have been schools in Franklin Township, Tuscarawas County, Ohio, dating back to 1816. However, the Strasburg-Franklin Local School District (the "District") was officially formed in 1946, with the closing of the last of six township schools, and the transfer of those students to the school buildings in town for their education.

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State or federal agencies. The Board controls the District's one facility, staffed by 20 classified personnel, 47 certificated teaching personnel and three administrators who provide service to 709 students and other community members.

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

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

**A. Reporting Entity**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Buckeye Joint Vocational School District

The Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Joint Vocational School District's Board of Education is comprised of representatives from the Board of Education of each participating school district. The Joint Vocational School District's Board of Education is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. The District's students may attend the Joint Vocational School District. Each participating District's control is limited to its representation on the Joint Vocational School District's Board of Education.

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

Tuscarawas County Tax Incentive Review Council

The Tuscarawas County Tax Incentive Review Council (TCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to Section 5705.62 of the Ohio Revised Code. TCTIRC has 44 members, consisting of 3 members appointed by the County Commissioners, 18 members appointed by municipal corporations, 14 members appointed by township trustees, 1 member from the county auditor's office and 8 members appointed by boards of education located within the county. TCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the TCTIRC can make written recommendations to the legislative authority which approved the agreement. There is no cost associated with being a member of this TCTIRC. The continued existence of the TCTIRC is not dependent on the District's continued participation and no measurable equity interest exists.

Strasburg Enterprise Zone Committee

The Strasburg Enterprise Zone Committee (Enterprise Zone) is a jointly governed organization created as a regional council of governments pursuant to State Statutes. The Enterprise Zone Committee has seven members, consisting of three members appointed by Strasburg Village Council, the Mayor of the Village, two business people, and one member appointed by the Strasburg-Franklin Local Board of Education. The committee has the authority to negotiate tax abatement agreements with current and prospective businesses located in the Enterprise Zone. There is no cost associated with being a member of this committee. The continued existence of this committee is not dependent upon the District's continued participation and no equity interest exists.

The District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have any proprietary funds.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

*GOVERNMENTAL FUNDS*

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

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

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation or resources and payment of general obligation bonds and notes payable.

*Building Fund* - This fund is used to account for monies received and expended in connection with the renovation and construction of District buildings.

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

*FIDUCIARY FUNDS*

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

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

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

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

The agency fund does not report a measurement focus as it does not report operations.

**D. Basis of Accounting**

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

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

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

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

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

**E. Budgets**

The District is required by State Statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. On July 25, 2002, the Tuscarawas County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15 and the filing by January 20. In order to complete other necessary documents, the Budget Commission now requires certain information to be filed by May 1. Information required includes the general fund five year forecast submitted to the Department of Education, projected revenues and expenditures line items for all levy funds, projected revenues and debt requirements (principal and interest) and amortization schedules for the debt service fund, and balances and total anticipated activity for all other funds.



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

2. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the 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 as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
3. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level for all funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. 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.
4. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
6. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
7. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the legal level of control.

**F. Cash and Investments**

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

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, federal agency securities and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$67,987, which includes \$50,401 assigned from other funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$1,500. Donated capital assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

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

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

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

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

**L. Fund Balance Reserves**

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted for other purposes includes amounts restricted for school bus purchases.

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

**N. Prepayments**

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

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish capital acquisition reserve and a school bus purchase reserve. These reserves are required by State Statute. A schedule of statutory reserves is presented in Note 16.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

**Q. Interfund Activity**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

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

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

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

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

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

**B. Deficit Fund Balances**

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Improving Teacher Quality	\$ 19

These funds complied with Ohio State Law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

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

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

**A. Cash on Hand**

At year-end, the District had \$4,100 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$714,573, exclusive of the \$672,195 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$484,810 of the District's bank balance of \$755,791 was exposed to custodial risk as discussed below, while \$270,981 was covered by Federal Deposit Insurance Corporation.

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

**C. Investments**

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

Investment type	Fair Value	Investment Maturities	
		6 months or less	7 to 12 months
Repurchase Agreement	\$ 672,195	\$ 672,195	\$ -
STAR Ohio	322,740	322,740	-
FHLMC	2,714,485	2,714,485	-
FHLB	1,742,769	995,870	746,899
FNMA	1,509,663	1,509,663	-
	<u>\$ 6,961,852</u>	<u>\$ 6,214,953</u>	<u>\$ 746,899</u>

The weighted average maturity of investments is .24 years.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

*Credit Risk:* The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 672,195	9.66
STAR Ohio	322,740	4.64
FHLMC	2,714,485	38.99
FNMA	1,509,663	21.68
FHLB	1,742,769	25.03
	<u>\$ 6,961,852</u>	<u>100.00</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 714,573
Investments	6,961,852
Cash on hand	4,100
Total	<u>\$ 7,680,525</u>
 <u>Cash and investments per the Financial Statements</u>	
Governmental activities	\$ 7,631,142
Private-purpose trust funds	24,458
Agency funds	24,925
Total	<u>\$ 7,680,525</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transactions for the year ended June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 5,000



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

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

Transfers to Nonmajor governmental funds from:	
General Fund	\$25,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - PROPERTY TAXES**

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

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

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

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

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

The amount available as an advance at June 30, 2006 was \$191,925, in the general fund, \$54,986 in the debt service fund, \$8,602 in the Permanent Improvement capital projects fund, and \$4,070 in the Classroom Facilities special revenue fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$91,600, in the general fund, \$28,389 in the debt service fund, \$4,126 in the Permanent Improvement capital projects fund, and \$1,964 in the Classroom Facilities special revenue fund.

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

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

	2005 First Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 70,201,080	91.44	\$ 72,573,030	91.85
Public utility personal	2,263,300	2.95	2,248,510	2.85
Tangible personal property	<u>4,306,820</u>	<u>5.61</u>	<u>4,188,098</u>	<u>5.30</u>
Total	<u>\$ 76,771,200</u>	<u>100.00</u>	<u>\$ 79,009,638</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$60.50		\$60.50	

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Taxes	\$ 2,072,055
Accounts	146
Intergovernmental	26,573
Accrued interest	<u>92,630</u>
Total	<u>\$ 2,191,404</u>

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

**NOTE 8 - CAPITAL ASSETS**

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

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 870,240	\$ -	\$ -	\$ 870,240
Construction in progress	<u>-</u>	<u>1,309,618</u>	<u>-</u>	<u>1,309,618</u>
Total capital assets, not being depreciated	<u>870,240</u>	<u>1,309,618</u>	<u>-</u>	<u>2,179,858</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	615,002	-	-	615,002
Buildings and improvements	1,203,097	-	-	1,203,097
Furniture and equipment	375,462	3,673	(12,063)	367,072
Vehicles	<u>437,226</u>	<u>-</u>	<u>(39,677)</u>	<u>397,549</u>
Total capital assets, being depreciated	<u>2,630,787</u>	<u>3,673</u>	<u>(51,740)</u>	<u>2,582,720</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(336,008)	(26,482)	-	(362,490)
Buildings and improvements	(1,012,055)	(13,949)	-	(1,026,004)
Furniture and equipment	(339,015)	(7,113)	12,063	(334,065)
Vehicles	<u>(341,117)</u>	<u>(25,822)</u>	<u>39,677</u>	<u>(327,262)</u>
Total accumulated depreciation	<u>(2,028,195)</u>	<u>(73,366)</u>	<u>51,740</u>	<u>(2,049,821)</u>
Governmental activities capital assets, net	<u>\$ 1,472,832</u>	<u>\$ 1,239,925</u>	<u>\$ -</u>	<u>\$ 2,712,757</u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 14,700
Special	754
Vocational	754
 <u>Support Services:</u>	
Pupil	4,666
Instructional staff	754
Board of education	566
Administration	93
Fiscal	908
Pupil transportation	25,822
Food service operations	964
Extracurricular	<u>23,385</u>
 Total depreciation expense	 <u><u>\$ 73,366</u></u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. On April 26, 2006, the District issued general obligation bonds to provide funds for constructing a new elementary school building. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond issue are recorded as an expenditure in the debt service fund.

This issue is comprised of both current interest bonds, par value \$6,655,000, and capital appreciation bonds, par value \$360,000. The interest rates on the current interest bonds range from 3.00% to 4.45%. The capital appreciation bonds mature on December 1, 2010 (effective interest 15.53%), December 1, 2011 (effective interest 15.53%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006, was \$144,990. A total of \$25,864 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2032.

The following is a schedule of activity for fiscal 2006 on the 2005 series general obligation bonds:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2006</u>
Current interest bonds	\$ 6,655,000	\$ -	\$ (95,000)	\$ 6,560,000
Capital appreciation bonds	<u>147,112</u>	<u>23,742</u>	-	<u>170,854</u>
Total G.O. bonds	<u><u>\$ 6,802,112</u></u>	<u><u>\$ 23,742</u></u>	<u><u>\$ (95,000)</u></u>	<u><u>\$ 6,730,854</u></u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the future debt service requirements to maturity for the 2005 series general obligation bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 160,000	\$ 250,805	\$ 410,805	\$ -	\$ -	\$ -
2008	165,000	241,480	406,480	-	-	-
2009	170,000	231,287	401,287	-	-	-
2010	175,000	219,671	394,671	-	-	-
2011	-	325,714	325,714	77,908	102,092	180,000
2012-2016	760,000	1,342,404	2,102,404	67,082	112,918	180,000
2017-2021	1,145,000	1,033,243	2,178,243	-	-	-
2022-2026	1,410,000	760,345	2,170,345	-	-	-
2027-2031	1,755,000	404,895	2,159,895	-	-	-
2032-2033	820,000	39,010	859,010	-	-	-
<b>Total</b>	<b>\$ 6,560,000</b>	<b>\$ 4,848,854</b>	<b>\$ 11,408,854</b>	<b>\$ 144,990</b>	<b>\$ 215,010</b>	<b>\$ 360,000</b>

**B.** On July 11, 2005, the District retired \$6,800,000 in bond anticipation notes using the proceeds from the District's \$6,799,990 bond issue on April 26, 2005.

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

	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
<b>Governmental Activities:</b>					
<b>General Obligation Bonds:</b>					
Current interest bonds	\$ 6,655,000	\$ -	\$ (95,000)	\$ 6,560,000	\$ 160,000
Capital appreciation bonds	144,990	-	-	144,990	-
Accreted interest	2,122	23,742	-	25,864	-
<b>Total obligation bonds</b>	<b>6,802,112</b>	<b>23,742</b>	<b>(95,000)</b>	<b>6,730,854</b>	<b>160,000</b>
Bond anticipation notes	6,800,000	-	(6,800,000)	-	-
<b>Compensated absences</b>					
Severance	292,598	-	(45,644)	246,954	25,800
Vacation	7,542	10,477	(7,542)	10,477	10,477
<b>Total compensated absences</b>	<b>300,140</b>	<b>10,477</b>	<b>(53,186)</b>	<b>257,431</b>	<b>36,277</b>
<b>Total</b>	<b>\$ 13,902,252</b>	<b>\$ 34,219</b>	<b>\$ (6,948,186)</b>	<b>6,988,285</b>	<b>\$ 196,277</b>
			Add: Unamortized premium	114,641	
			<b>Total on statement of net assets</b>	<b>\$ 7,102,926</b>	

Compensated absences will be paid from the fund from which the employee is paid.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$852,415, and an unvoted debt margin of \$79,010.

**NOTE 10 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. The Superintendent and eleven and twelve month classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to employees upon termination of employment. Teachers and principals 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 208 days for certified employees and 208 days for classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulated, up to a maximum of 52 days for certified employees and a maximum of 52 days for classified employees. Any employee receiving such payment must meet the retirement provision set by STRS Ohio or SERS.

**B. Insurances**

The District has elected to provide employee medical/surgical benefits through a comprehensive major medical insurance program. The plan provides a medical/surgical plan with a \$400 family and a \$200 single deductible. Dental coverage is also provided through Mutual Health Services Company. Deductibles for this plan are \$25 for an individual, with a \$75 maximum family deductible. The District also provides \$25,000 in life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Co.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The 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 fiscal year 2006, the District contracted with Indiana Insurance Company for property insurance. Indiana Insurance Company also covers boiler and machinery with a \$1,000 deductible and inland marine coverage with a \$250 deductible.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 11 - RISK MANAGEMENT - (Continued)**

Professional and general liability is protected by Ohio School Plan with a \$3,000,000 aggregate/\$1,000,000 single occurrence limit and a \$2,500 deductible. Vehicles are covered by Indiana Insurance Company and hold a \$100 deductible for comprehensive and \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability. 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 last year.

**B. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts than can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

**NOTE 12 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 11.70 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$59,984, \$51,533 and \$41,744, respectively; 45.29% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$32,816 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2006 and 2005, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$297,648, \$292,013, and \$279,836, respectively; 83.15% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$50,139 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability. Contributions to the DC and Combined Plans for fiscal 2006 were \$2,570 made by the District and \$11,000 made by plan members.



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

**C. Social Security System**

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

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (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 reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State Statute. Both systems are funded on a pay-as-you-go basis.

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 health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$22,896 during fiscal 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 Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS Ohio were \$254.780 million and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 2.30 percent of covered payroll, a decrease of 1.13 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$30,317 to fund health care benefits, including the surcharge.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (212,904)
Net adjustment for revenue accruals	100,471
Net adjustment for expenditure accruals	36,154
Net adjustment for other sources/uses	(2,145)
Adjustment for encumbrances	<u>9,780</u>
GAAP basis	<u>\$ (68,644)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is not involved in significant litigation as either plaintiff or defendant.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**NOTE 16 - STATUTORY RESERVES**

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Reserve</u>
Set-aside cash balance as of June 30, 2005	\$ (539)	\$ 74,485	\$ -
Current year set-aside requirement	97,199	97,199	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(98,493)</u>	<u>(1,309,618)</u>	<u>-</u>
Total	<u>\$ (1,833)</u>	<u>\$ (1,137,934)</u>	<u>\$ -</u>
Cash balance carried forward to FY 2006	<u>\$ (1,833)</u>	<u>\$ (1,137,934)</u>	<u>\$ -</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks/instructional materials reserve. This extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may be used to reduce the set-aside requirement for future years since it is related to expenditures associated with a debt issuance.

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

Amount restricted for school bus purchases	<u>\$ 7,913</u>
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# 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*

Strasburg-Franklin Local School District  
Tuscarawas County  
140 North Bodmer Avenue  
Strasburg, Ohio 44680

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Strasburg-Franklin Local School District, Tuscarawas 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 April 23, 2008. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated April 23, 2008.

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### **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*.

We did note certain noncompliance that we reported to the District's management in a separate letter dated April 23, 2008.

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties.

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

April 23, 2008

STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Procedures were not properly followed for the accounting of student activity fundraisers	Yes	







**Mary Taylor, CPA**  
Auditor of State

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT**

**TUSCARAWAS 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  
MAY 27, 2008**